FACTOR THAT AFFECT TAX AUDIT PRACTICE IN GURAGHE ZONE REVENUE AND CUSTOM AUTHORITY.(IN THE CASE OF WOLKITE TOWN)

PREPARED BY: ABEBAYEHU ABEL

A RESEARCH PAPER SUBMITTED TO DEPARTMENT OF ACCOUNTING AND FINANCE IN PARTIAL FULFILLMENT OF BA DEGREE IN ACCOUNTING AND FINANCE

ADVISOR: Mr. DESTA .YOHANNIS (MSc)

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

June, 2019

Wolkite, Ethiopia

Abstract

The purpose of this study is to investigate factors affecting tax audit effectiveness on large tax payer's office. The study stands to answer the following research question "How audit quality, management support, organizational setting, audit attributes, organizational independence and the interplay among them, influence tax audit effectiveness in large tax payers office?" In light of this objective the study was adopt primary research method to test a series research hypothesis. Specifically, the study was used survey of closed ended questionnaire from tax revenue and authority analysis offices' in wolkite town. Then tax auditors was selected based on census method. Because, the target population to be study was small. In large tax payer's office there are 4 tax auditors supervised. Then the researcher was distribute those questioners to the 4 tax auditors. Data was analyzed on quantitative basis using Pearson's correlation and descriptive statistics. The results showed that there is no statistical significance negative relationship between organizational setting and tax audit effectiveness. Besides, the results showed that Tax Audit Effectiveness of Large tax payer's office is highly affected by audit quality of the department, management support and the organizations independence from unethical practices. While as auditors perception it doesn't be affected by organizational setting and auditees attribute.

ACKNOWLEDGMENT

First and for most my heartfelt thanks goes to almighty God, the one who helped me from the early beginning and give strength and protection to complete this Research. And next, I would like to thank my advisor Mr. Desta Yohannis for his priceless and unreserved support through his continuous advice and by providing his valuable information, comment and supportive idea to successfully accomplish my Research.

Lastly, I would like to thank, all my friends and family for their material and moral support and advice during the preparation of this Research.

Contents

Acknowledgment ii

Acronyms vi

CHAPTER ONE 1

INTRODUCTION 1

1.1 Back ground of the study 1

1.2 Statement of the Problem 2

1.3. Objectives of the Study 4

1.3.1.General objective 4

1.3.2.Specific Objectives 4

1.4 Hypotheses of the study 4

1.6 Scope of the study 5

1.7 Limitation of the study 5

1.8 Organization of the Research 5

CHAPTER TWO 6

REVIEW OF RELATED LITERATURE 6

2.1 Introduction 6

2.2 Theoretical framework 6

2.2.1 Types of tax audit 9

2.2.2 The effective tax audit program 11

2.1.3 Audit case selection methods 12

2.1.4 Examination Techniques 12

2.1.5 Audit workforce capabilities 13

2.3 Empirical literature review 13

2.3.1 Audit quality 14

2.3.2 Management Support 14

2.3.3 Organizational setting 15

2.3.4Auditee attributes 15

2.3.5 Organizational independence 16

2.2.6 Conclusions to the literature review and knowledge gap 17

2.2. 7 Conceptual Framework 17

CHAPTER THREE 19

REEARCH DESIGN ANDMETHODOLOGY 19

3.1 Introduction 19
3.2 Research Design 19
3.4 Data and Methods of data Collection 19
3.5 Data analysis 20
3.6 Target population 20
3.7Model Specification 21
3.8 Measures of dependent and independent variables 21
CHAPTER FOUR 23
DATA ANALYSIS AND PRESENTATION 23
4.1 Descriptive Statistics results 23
4.2 Correlation Analysis and Discussion 25
CHAPTER FIVE 28
SUMMARY, CONCLUSION AND RECOMMENDATION 28
5.1 Summary 28
5.2 Conclusions 28
5.3 Recommendations 29
References 31
APPENDIX 35

ACRONYMS

TAE: Tax audit effectiveness

AA: Auditee attributes

AQ: Audit quality

OI: Organizational independence

OS: Organizational setting

TMS: Top management support

SAS: Self assessment system

IA: Internal auditing

VAT: Value added tax

LTO: large tax payer's office

ERCA: Ethiopian revenue and customs authority

IT: Information Technology

CHAPTER ONE

INTRODUCTION

1.1 Back ground of the study

The government of Ethiopia has several alternative to finance its public expenditures and pursue its fiscal policy. These alternative include imposing of taxes on businesses and individual, and non-tax revenues such as service fees, money prints, loans (both domestic and foreign institutions), property and investment income, privatization of public enterprises, and domestic and foreign grants. Among others, tax along with customs collections is an important source of revenue for every government, and is a heart to a country "swell 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). A tax audit is an examination of whether a taxpayer has correctly reported its tax liability and fulfilled other obligations. It is often more detailed and extensive than other types of examination such as general desk checks, compliance visits or document matching programs (OECD, 2006a). As Biber (2010) noted, the role of an audit program in a modern tax administration must extend beyond merely verifying a taxpayers reported obligations and detection of discrepancies between a taxpayer's declaration and supporting documentation.

According to Kircher (2008) tax audit is the examination of an individual or organization's tax report by the relevant tax authorities in order to ascertain compliance with applicable tax laws and regulations of state. He further reported that tax audit is a process where the internal revenue service tries to confirm the numbers that you have put on your tax return. Ola (2001) stated that the process of tax audit involves tax returns that are selected for audit using some selection criteria. Thereafter, the underlying books and records of the taxpayers are examined critically to relate them to

the tax return filed. Tax audit is important because it assist the government in collecting appropriate tax revenue necessary for budget, maintaining economic and financial order and stability, to ensure that satisfactory returns are submitted by the tax payers, to organize the degree of tax avoidance and tax evasion, to ensure strict compliance with tax laws by tax payers, to improve the degree of voluntary compliance by tax payers and to ensure that the amount due is collected and remitted to government. Slemrod (2000) is of the view that tax audit is one of the most effective policies to prevent tax evasion behaviour. The level of tax audit can be determined by two elements: one is how many tax payers are selected for audit and the other is how much intensive the audit is. The first element is easily measured by the number of audited tax payers divided by the total number of tax payers. However, the latter is so difficult to measure due to non-published information about tax audit progress. It is commonly measured by the first element to indicate the level of tax audit for practical comparison. In the word of Okonkwo (2014), tax audit is independent examination of accounts, tax returns, tax payments and other records of a taxpayer to confirm compliance with tax laws, rules and regulations and accuracy and correctness of tax paid and adhering to generally relevant accounting principles and standards. While tax investigation and tax audit are often used interchangeably, however, in practice, tax investigation is a more detailed and painstaking examination of the taxpayer ‟s records. It is usually triggered by suspicion of fraud, evasion and related offences (Okonkwo, 2014). Therefore, the purpose of this study is to identify factor that affect tax audit practice.

1.2 Statement of the Problem

Taxation in developing countries is a challenging topic and has attracted increasing attention to the researcher. Many problems observed like poor tax administration, failing to collect sufficient tax revenues. In many developing countries it is observed that there is low capacity of tax administration to monitor compliance among taxpayers and the potential amount of tax revenue has not been collected in an efficient and equitable manner (Edmiston and Bird, 2004).

In many developing countries it is observed that there is low capacity of tax administration to monitor compliance among taxpayers (Tanzi, 2000). Ethiopia, like any

other developing countries, faces difficulty in raising revenue to the level required for the promotion of economic growth. Hence, the country has been experienced a consistent surplus of expenditure over revenue for sufficiently long period of time. To address this problem, the government introduced the imposition of tax (direct and indirect), among others; as major and important sources of public revenue. However, this imposition of tax couldn't still bring the required result due to a

number of reasons such as lack of clear understanding about the tax system by the taxpayers, taxpayers don't comply with their tax obligation, hostility between the taxpayers and tax officials, negative attitude of taxpayer towards the tax system, understating their taxable income by significant amount For these reasons, the actual amount of tax couldn't be collected properly (Tadele, 2010).

A tax audit is one of the most sensitive contacts between the taxpayer and a revenue body, the presence of an auditor in a taxpayer's private dwelling or business premises, coupled with the exploration of private and business issues and the gathering of information from taxpayers' books and records, or just the disruption of day-to-day workflow, represents a burden on the taxpayer (OECD, 2006). Tax audit help revenue authority achieving its objectives, and ensuring the fiscal health by means of indirectly drive voluntary compliance and directly generate additional tax collections, both of which help tax authorities to reduce the tax gap between the tax due and tax collected.

And this study will be found that the major factors affecting tax audit practice are audit quality, organizational setting, top management support, organizational independence and audit attribute. However, empirical studies are lacking to identify factors affecting tax audit practice in our country Ethiopia. This study, therefore, considers the above mentioned variables as independent and it verifies if they are influencing on tax audit practice in Wolkite Town administration revenue office tax audit practice.

Previous study's discuss the issue of tax audit in different perspectives and organizational setting .the study of (Gebeyehu,2008)discuss tax audit in relation to its significance on revenue on the year 2008.the study of (Bibibiso,2014) discuss Hawassa city administration tax audit performance (Yismaw, 2007)also stands the issue of

internal audit effectiveness on public sector organization .Recently (Ayalew, 2014)discuss on factors affecting tax audit effectiveness a study on Bahir dar city administration .Therefore previous study's adequately discuss issues related to tax audit but as large tax payers have major share on the economy ,the researcher couldn't find a study related to LTO and tax audit effectiveness. So, the researcher tries to focus on the factors affecting tax audit effectiveness evidence from large tax payer's office of the Ethiopian revenue and customs authority.

1.3. Objectives of the Study

1.3.1.General objective

The major objective of this study was to examine the factors affecting tax audit practice in large taxpayer's in Wolkite Town Revenue and Custom Authority.

1.3.2.Specific Objectives

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

1. To investigate the effect of audit quality on tax audit effectiveness .

2. To examine the effect of organizational setting on tax audit effectiveness .

3. To evaluate the effect of top management support on tax audit effectiveness .

4. To evaluate the effect of organizational independence towards tax audit effectiveness.

5. To investigate the influence of auditee on tax audit effectiveness.

1.4 Hypotheses of the study

H1.Tax audit effectiveness is positively influenced by audit quality.

H2. Tax audit effectiveness is positively influenced by organizational setting.

H3. The effectiveness of tax audit is influenced positively by top management support.

H4. The effectiveness of tax audit is influenced positively by organizational

independence.

H5. The effectiveness of tax audit is influenced positively by auditee attributes.

1.5 Significance of the Study

The study was have much more significance, among these the major one are. The authority might be able to see its level and performance of tax audit activities, and learn some lessons and build some corrective measures for the weaknesses based on recommendations to be forwarded. The report has some conclusions and forwards some recommendations that was enable the Administration Revenue Office to identify the factors that affect tax audit practice and to take corrective remedies to keep the existing factors through tax audit improvement. Further, the

study has paramount use for different stakeholders who are interested for such as government agencies and business associations. Finally, the study might have invaluable importance for future researchers who need to conduct a study in this and related fields.

1.6 Scope of the study

The study was focused on the audit part of tax administration of Ethiopia in the case of Wolkite town constraints. this study contemplates on examination of tax audit effectiveness, auditee attributes, audit quality, organizational independence, organizational setting and top management support. The scope of this study would be limited to the examination of factors affecting tax audit effectiveness in large taxpayer's office.

1.7 Limitation of the study

Any type of research may have its limitation. The degree of limitation is depending on the situation that the student researchers were involved or the willingness of respondent about the student researchers needed. The student researchers were face different problem that makes hard to conduct the study. Therefore, the following problems were the majors;

- Lack of sufficient time and information

- Financial constraint
- Unwillingness of employees at time of data collection

1.8 Organization of the Research

This research has five chapters, the first chapter outline introduction of the study which includes the background, statement of the problem, objectives, hypothesis development, significance of study, scope of the study, limitation of the study, and organization of the research, Second Chapter is a literature review includes, Theoretical review and Empirical review, chapter three contains the research methodology; which describes about the research approach, research methods, sampling design and sources of data Chapter four discuss about data presentation, analysis and interpretation, different tables and figures are used in this part to describe and analyze the quantitative data. Finally the fifth chapter presents the major conclusion drawn from analysis and findings of the study and possible recommendation for the identified problems also included.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Introduction

This section presents review of existing theoretical and empirical literature on tax audit. At the end of the review, an attempt is made to summarize the major Drawbacks of the existing empirical studies and to identify the knowledge gap to be filled in by further investigation. The chapter is organized in to 4 section .the first section presents the theoretical framework for audit ,the second section presents empirical evidences ,the third section shows gaps in literature, and fourth Conceptual frame work.

2.2 Theoretical framework

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

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

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

1) Agency theory

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

Using agency theory, Xiangdong (1997) explained the role that internal audit plays in an economy and points out that internal audit has an advantage over external audit in

obtaining information quickly and finding problems at an earlier stage; and Spraakman (1997), applying the theory of transaction cost economics, demonstrated how internal audit recommendations are important to the management of government organizations. Audit findings and recommendations would not serve much purpose unless management is committed to implement them. “Auditors are engaged as agents under contract but they are expected to be independent of the agents who manage the operations of the business. The primary purpose of audited accounts in this context is one of accountability and audits help to reinforce trust and promote stability” (Audit quality, 2005)

2) Positive Accounting Theory (PAT)

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

3) Institutional theory

The concept of institutional is related to organizations actions over time. Such actions are said to be legitimated within an organization and environment (Pfeffer 1982). Institutional theory suggests that internal operating processes loosely coupled with the observable structures accomplish the real work of an organization. As a result, organizations with the appropriate structures in place will avoid deep investigations of their function by external auditors (Meyer and rowan 1977). Organizations are subject to rules and regulations to which they must conform in order to ensure their legitimacy and thus have access to resources and ensure their survival (DiMaggio and Powell 1983). However, these rules and regulations don’t necessarily guarantee that organizations will continue to operate efficiently (Meyer and Rowan 1977; Scott 2008). Institutional elements comprise the institutions and over time the institutional elements are given priority. The key point is to identify what institutional elements reinforce or undercut

other elements (Scott 2008). Functional pressure, political pressure and social sources are three possible factors that cause pressure on institutional common practices (Oliver 1991)

4) Stewardship theory

Stewardship theory outlines a co-operative and optimistic view of relationships within the corporation by assuming that managers are good stewards and do not misappropriate corporate resources; their behavior is also conditioned by non-financial motives such as the need for recognition of their achievements and performance (Vanden et al. 2004). Thus the directors' role is to counsel and advice rather than to monitor the stewardship theory holds that no inherent, general problem of executive motivation exists. The model of man is based on a steward whose behavior is pro-organizational and collectivistic. Following the basic thoughts of stewardship theory, there is no need of implementing monitoring mechanisms. There is no need of engaging audit services in order to secure the reliability of information. However, within stewardship theory an audit could be of value as a means of assisting the executive's stewardship.

5) Stakeholder theory

Stakeholder theory explains the relationship between organizations and their external environment (Freeman 1984). A stakeholder is defined as a human agency that can have an impact or affect organizations (Gray et al. 1996). Stakeholders represent the big umbrella for all individuals and parties that may have a direct or indirect interest in an organization. Direct stakeholders are shareholders, employees, investors, customers and suppliers whose interests are aligned with the company. An example of an indirect stakeholder is the government, which is indirectly affected by the company's function (Kiel and Nicholson 2003). Due to this role of

stockholders, organizations are not only accountable to shareholders only but also to stakeholder

2.2.1 Types of tax audit

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

(a) Desk Audit or Verification

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

(b) Field Audit

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

(c) Registration Check

Registration check is a form of unannounced visits to taxpayer's premises for new enterprises (mainly small and medium sized) to detect businesses operating outside the tax system and a quick check on businesses to establish that they are correctly registered. It should not take more than half a day (OECD, 2006) According to Ebrill (2001) in this visit, the tax officer ensures that the taxpayer: (1) has a basic

understanding of their obligations; (2) keeps appropriate records (book keeping review should be mandatory in case of voluntary compliance when the turnover of the taxpayer is below the registration threshold); and (3)issues proper invoices when required by law.

(d) Advisory Audits

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

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

(f) Refund Audit

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

(g) Issue-oriented Audit

According to *Grand colas (2005),* issue oriented audit focus on a single tax type and covers no more than one or two reporting periods. It should be directed at verifying items for which errors have been detected in the returns (atypical ratios, gross revenues, comparison of gross sales to (.imports). Single-issue audits are confined to one item of potential noncompliance that may be apparent from examination of a taxpayer's return. Given their narrow scope, single issue audits typically take less time to conduct and can be used to review large numbers of taxpayers involved in similar schemes to conceal

non-compliance (OECD, 2006).

(h) Comprehensive or full Audit

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

(i) Fraud Investigation

Fraud investigation is a type of tax audit that investigates criminal which arises from where the most serious cases of noncompliance. It helps to detect fraud, evasion, and criminal activity Krelove (2005). Fraud investigation requires special skill including meeting evidentiary requirements, seizure of evidences or records, testimony from key witnesses and preparing briefs for courts. Hence, it should be undertaken in accordance with criminal procedure laws. OECD (2004a) stated that, Revenue authorities should maintain a dedicated organizational unit responsible for the handling of serious cases of tax fraud or evasion. According to OECD (2006) the types of tax audit are categorized in different based on the scope and its intensity of the audit performed.

2.2.2 The effective tax audit program

Tax audit is one of the longest standing and accepted compliance strategies in tax administration. The tax audit program provides visibility to the compliance and enforcement arm of the tax administration (Thomson 2008). The auditing and spot checking of records, coupled with a system of adequate penalties for detected cases of

fraud, is the universal method for tax control and the prevention of tax evasion. Tax evasion can be brought to light only by a means of an effective audit program (Tait 1988). Tax audit also helps tax agencies to achieve revenue objectives that ensure the fiscal health of the country and individual states. It derives voluntary compliance and generates additional tax collections, both of which help tax agencies to reduce the tax gap between the taxes due and the amount collected (Barreca and Ramachandran 2004).

2.1.3 Audit case selection methods

The primary goal of revenue authorities is to manage and improve overall compliance with the tax laws, and in the process sustain confidence in the tax system and its administration. Tax audit is a sole treatment for compliance risk available to administrations that allows exercising effective sanctions (imprisonment and penalties and/or interest). It acts as a public sanction making the extent of the administration's enforcement powers visible within the community and encouraging others to comply. Compliance risk is the failure to comply with the tax law by taxpayers whether due to their ignorance, carelessness, recklessness, deliberate evasion, or weaknesses in tax administration itself, and have been addressed only by enforcement through an audit based approach (OECD 2004a).

2.1.4 Examination Techniques

A tax auditor applies various techniques to examine the books and records behind a return. The techniques to be used depend on the taxpayer and the tax regime concerned. As Biber (2010) noted, an effective case plan can be cognizant of a range of investigative and analytical approaches that may vary depending upon the area of risk and the circumstances of the particular taxpayer. The decision regarding the type of tests to be undertaken as well as the records needed by the auditor to address specific issues is influenced by the nature of the taxpayer's operations, adequacy of books and

records, and materiality of potential adjustments. According to OECD (2006a), the techniques used for audit examination purposes include analytical review, investigative

approach, field examination, record examination, and counterpart examination.

2.1.5 Audit workforce capabilities

As OECD (2006a) stated, revenue bodies must manage and develop their audit workforce to deliver their planned outcomes through increasingly designing and implementing capability or competency models. Capability or competency model refers to a formal specification of the skills, knowledge and attributes of staff that are required to perform a specific job in an efficient and effective manner. The model generally contains job descriptions, functional descriptions, and competency profiles using task related competencies. It is typically supported by training, exams, and educational requirements to ensure and build capability. The model is used as a basis for managing performance, training, staff development, and recruitment across the audit function. Different capabilities are required for work performed in different market segments, or on clients exhibiting different behaviors towards tax compliance. Typical points of difference are capabilities required for noncompliant aggressive clients, audit work with large businesses (deeper and more specialized knowledge about specific regulations is required for this segment), performing system and electronic data base audits, and conducting criminal and fraud cases (OECD 2006b).

2.3 Empirical literature review

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

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

identify areas of tax laws that taxpayers need clarification (OECD, 2006). However, business taxpayers have a misconception that tax audits are either aimed to detect tax, to recover more tax or to penalize noncompliance. The general deterrent effect of tax audits refers to the additional revenue collection generated from taxpayers who are not actually audited. Tax auditors also play a critical role in the effectiveness of the SAS in many countries. In addition to their primary role of detecting and deterring non-compliance, tax auditors are often required to interpret complex tax laws and carry out extensive examinations of taxpayers' books and records (OECD, 2006). OECD (organization for economic co-operation and development).The model considers five potential factors –audit quality, management support, and organizational setting, auditee attributes, and organizational independence to explain audit effectiveness.

2.3.1 Audit quality

Audit quality to IA is considered as a determinant of IA effectiveness (Mihret and Yismaw, 2007 and Aaron Cohen & Gabriel Sayag, 2010).Audit quality, which is demonstrated by the office's capability to provide useful audit findings and recommendations, is one of the most prominent

factors on which audit effectiveness is anchored. The performance standards of the IA require the auditor to plan and perform the work such that he or she would be able to arrive at useful audit findings and forward recommendations for improvement. The office's ability to properly plan, perform and communicate the results of audits is a proxy for audit quality. Therefore, audit quality is arguably a function of extensive staff expertise; reasonableness of the scope of service; and effective planning, execution and communication of audits. To evaluate these determinants of audit quality, evidence from questionnaire responses with the Director of the Audit Office were used. To support the results, supplementary information was collected through a review of relevant documents.

2.3.2 Management Support

Management support to IA is considered as a determinant of IA effectiveness (Mihret and Yismaw, 2007 and Aaron Cohen & Gabriel Sayag, 2010). The management literature offers ample evidence for the key role of top management support in the success of

almost all programs and processes within an organization. Fernandez and Rainey (2006) argued, based on a thorough literature review that top management support and commitment to change play a crucial role in organizational renewal, as senior managers can mobilize the critical mass needed to follow through on efforts launched by one or two visionary thinkers. A number of empirical studies have found top management support for quality to be a key factor in its improvement. Top managers' attitudes and behaviors have also been found to be related to quality management practices survey of companies with high-quality performance found that 89% had CEOs who regularly visited the factory floor, participated in training programs and attended company-wide quality-improvement events.

Given this, it is not surprising that management acceptance of, and support for, the audit function has long been seen as critical to the success of that function. Several recent studies have demonstrated that support for internal auditing by top management is an important determinant of its effectiveness (Schwartz, Dunfee and Kline 2005). Funding, of course, is an important measure of such support: tax auditing departments must have the resources needed to hire the right number of high-quality staff, to keep up-to-date in training and development, to acquire and maintain physical resources like computers, and so on. They see themselves as a key part of the management team, and believe they can influence decisions; maintain a sufficient level of objectivity, integrity and competence in their jobs; and provide good support for their own staff. More importantly, they view the support of upper management as a key factor in ensuring the effectiveness of their role.

2.3.3 Organizational setting

Organizational setting to IA is considered as a determinant of IA effectiveness (Mihret and Yismaw, 2007). Organizational setting includes the status of tax audit in the organizational structure; the probity of tax audit office's internal organization; budgetary status of the internal audit office; and the existence of sound established criteria to evaluate auditees' practices. Organizational status and internal organization The tax audit function of an organization should be given a sufficiently high status in the

2.3.4Auditee attributes

Auditee attributes to IA is considered as a determinant of IA effectiveness (Mihret and Yismaw,2007). The auditee attributes relate to the capability of the auditee to meet its intended objectives. Auditee attributes with implications on audit effectiveness include the auditees 'proficiency to efficiently and effectively meet organizational sub-goals; their attitude towards tax audit; and the level of cooperation provided to the auditor. Audit quality and management support strongly affects audit effectiveness. Better audit effectiveness, in turn, has a positive bearing on these two factors. If tax audit enhances quality to the extent it elicits management's interest, management support would be a natural returning of favor because the management would realize the contribution of tax audit to the achievement of organizational goals. This would positively reflect on audit quality and enhance audit effectiveness. The management's commitment to implement audit recommendations improves the operation of the auditee, as a result of which the auditee attributes would improve to the benefit of audit effectiveness. Further, management retains the authority to improve the organizational setting and influence the auditee towards a positive effect on audit effectiveness, which in turn, benefits audit quality. To achieve effective audit work, the auditors are required to have full and unrestricted access toall activities, records and properties, and be provided with cooperation from the auditee. The ease of access to required records in the auditee varies among the units audited. The capability of the auditees to meet their objectives also reflects on audit quality.

2.3.5 Organizational independence

Organizational independence to IA is considered as a determinant of IA effectiveness (Aaron Cohen & Gabriel Sayag, 2010). The role of IA in organizations is complex. Van Peursem (2004) identifies strong potential for confusion in the relationship between internal auditors and management: internal auditors are expected to aid managers in doing their jobs, and at the

same time to independently evaluate management’s effectiveness. Internal auditors are charged with upholding the best interests of their employer, but they may be reluctant to

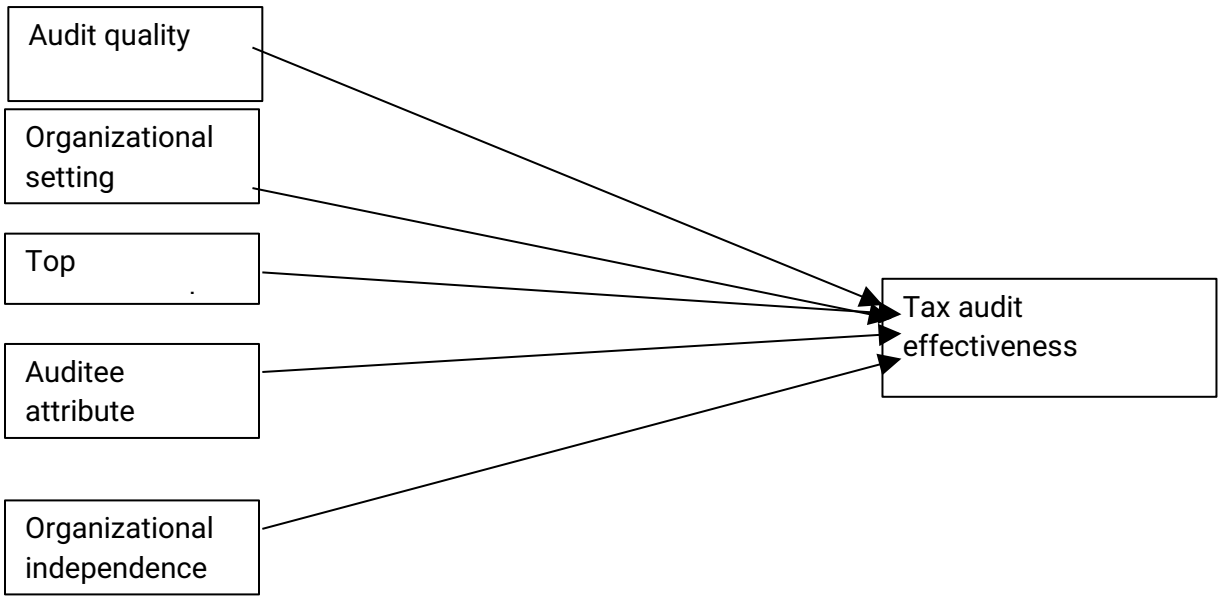
counter management, regardless of the consequences. Bou-Raad (2000) argued that the strength of an IA department must be assessed with respect to the level of independence it enjoys from management and from operating responsibilities. The IIA, the American Institute of Certified Public Accountants (AICPA) and others have likewise identified organizational independence as crucial to the viability of the internal audit function. Auditors should be sufficiently independent from those they are required to audit that they can both conduct their work without interference, and equally important to be seen to do so. Coupled with objectivity, organizational independence contributes to the accuracy of the auditors' work and gives employers confidence that they can rely on the results and the report. Differentiate among three dimensions of independence: programming independence, investigative independence and reporting independence. They argue that organizational independence is more crucial to the effectiveness of internal auditors, as it protects the auditor from pressure or intimidation, and increases the objectivity of the auditing work.

2.2.6 Conclusions to the literature review and knowledge gap

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

2.2. 7 Conceptual Framework

This study conceptualizes that the tax audit effectiveness could be affected by Audit quality, Organizational setting, Management support, Organizational independence, and Auditee attributes. study is therefore to test the nature and the strength of these relationships. Conceptual frame work presented in Figure below.



Source: the above picture taken from the back ground and the empirical study.

Figure 2.1 Conceptual frame work

CHAPTER THREE

REEARCH DESIGN ANDMETHODOLOGY

3.1 Introduction

The chapter is arranged as follows: Research design, Research methodology, Data and method of data collection, Target population and data analysis techniques, Model specification and finally, Description of study variables and their measure of variables.

3.2 Research Design

Explanatory research design was used in line with the objective of the study. Because, the researcher wanted to focus on a very narrow set of data with deep explanations on the study area. Research methods are the techniques used to collect data. In this study, the researcher adopted primary approach. For this study, the researcher applied quantitative (questioner) and are discussed in the following sub-sections. The researcher distributes the questioners to the 4 tax auditors of LTO and the data was processed on SPSSv16.0 to make correlation and descriptive statistics.

3.3 Research Methodology

The main objective of this study was be examine the factors affecting tax audit practice in Wolkite Town Administration Revenue Office. Hence, the appropriate research method is a case study research type, because it provides in determining the nature of units to be study along with the nature of the universe and also it helps in formulating relevant hypotheses along with the data which may be helpful in testing them, in addition, enable the generalized knowledge to get the existing situations of audit selection, tax audit function, audit staff monitoring and evaluating, and compliance of taxpayers during auditing.

3.4 Data and Methods of data Collection

The main base for the study is primary data only which was collected through field work survey in order to get information on the issue of factors affecting tax audit effectiveness through questionnaire. The structured questionnaire consists of closed ended questions to collect quantitative data from the respondents. Along with some of the closed ended questions are five score Likert scales to provide respondents a wider

range of alternative with end points where “5” the level of agreements are represent by 1 to 5. *Strongly agree 5, agree 4, neutral 3, disagree 2, and strongly disagree1*. Questionnaires were pre tested by five analyzed respectively and the necessary correction were made and standardized before they were circulated to the respondents to test the validity. these questionnaires were filled by tax auditors to reflect their work to the issue under study.

- **Questionnaires:** Questioners were used to collect primary data form respondents and its advantage is covering a small number of respondents easily and quickly. Questionnaires were distributed to the selected respondents to get primary data on the factors affecting tax audit effectiveness. The questionnaires have provided to the tax auditors and have a total of 31 questions; with two parts, its first part have 4 related to respondents profile and in its second part it have 27 questions which were designed to measure variables of the study. tax audit effectiveness and auditee attribute is measured by each with 5 questions. Audit quality and organizational independence were each measured with 5 questions, organizational setting and top management support with 3 and 4 questions respectively.

3.5 Data analysis

Before presenting the data analysis methods adopted, the study tried to specify the variables and models used under the study. Accordingly, the study identified a total of six variables including one dependent, and five independent variables based on the previews studies on different countries on similar topics namely, (Mihret and Yismaw, 2007) , (Ayalew, 2014) and (Aaron Cohen & Gabriel Sayag, 2010).In the research, raw data is changed into a data structure that enables to generate meaningful and useful bits of information. The major part of the analysis is done based on the descriptive statistics and correlation for quantitative data to examine the study to indicate the factors affecting tax audit practice in Large tax payers office. The collected and analyzed data is presented by using the following data presentation tools:

3.6 Target population

The target population for this particular study is 4 tax auditors of revenue and custom authority in Wolkite Town. Since the number of tax auditors is not large, the study used census approach. To achieve the objective of the study the researcher used Census method to select the survey respondents. Because Census method is most reliable especially, if the number of population is small.

3.7Model Specification:

The study used descriptive statistics and correlation models. and stated that the result of correlation is an equation that represents the best prediction of a dependent variable from several independent variables.

Variables

Dependent variable

TAE =tax audit effectiveness

Independent variable

AQ = audit quality

OS = organizational setting

MS = management support

AA = auditee attributes

OI = organizational independence

Therefore, the formula used for the model is:

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

where,

Y- the mean values of the Tax Audit Effectiveness,

X1,X2,X3,X4,X5-mean values of audit quality, mean values of organizational setting, mean values of management support, mean values of auditee attributes,

mean values of organizational independence.

.

3.8 Measures of dependent and independent variables

- **Dependent variable**

Given the lack of academic work on the effectiveness of tax auditing, the researcher found scales in the literature that were tested for their reliability which met the requirements of this study. The researcher used the 27 internal auditing effectiveness items advanced by (Aaron Cohen & Gabriel Sayag, 2010) as a starting point and variables were tested for their reliability through (Cronbach's Alpha) for all items with SPSS V16.0.

Tax audit effectiveness- This variable was measured by five items (numbers 5, 6, 7, 8 and 9). The majority of these items dealt with the tax audit effectiveness.

- **Independent variables**

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

Auditee attributes: This variable was measured by five items (numbers 10, 11, 12, 13 and 14). The majority of these items dealt with the auditee attribute.

Audit quality: This variable was measured by five items (numbers 15, 16, 17,18 and 19). The majority of these items dealt with the audit quality.

Organizational independence: This variable was measured by five items (numbers, 20, 21, 22 ,23, 24 and 25). The majority of these items dealt with the organizational independence.

Organizational setting: This variable was measured by three items (numbers 26, 27 and 28). The majority of these items dealt with the organizational setting.

Top management support: This variable was measured by four items (numbers 29, 30, 31 and 32). The majority of these items dealt with the top management support.

Data was then analyzed on quantitative basis using Pearson's correlation and descriptive statistics.

CHAPTER FOUR
DATA ANALYSIS AND PRESENTATION

In the preceding chapters, the review of relevant literature helped this study to understand the problem and design an appropriate research approach to deal with. The previous chapter also discussed the research design to achieve the objectives of the study and to test the research hypothesis there on. In this chapter, the study analyzes the collected data using various statistical tools and presents the results and discussion accordingly. and used descriptive statistics, and correlation analysis. At the end of the collection process, The data collected from the returned questionnaire were entered into SPSS (Statistical package for social science software) version 16 for analysis. Finally descriptive statistics, and correlation analysis were performed.

4.1 Descriptive Statistics results

The descriptive statistics (such as mean of distribution, median of distribution, minimum/maximum of the range of distribution and standard deviation of the distribution) were investigate and present an overview of both dependent (TAE) and independent variables (AA, AQ, OI, OS and TMS) used in the study. Table 1, shows the descriptive statistics output of all variables. It also describes the overall nature of variables in the study and their interpretation is presented as follows

Table 1: Descriptive statistics output of all variables

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
TAE	4	14.00	21.00	17.7500	3.30404
AQ	4	9.00	16.00	12.7500	2.98608
OS	4	5.00	11.00	8.5000	2.51661
MS	4	12.00	16.00	14.7500	1.89297
AA	4	16.00	20.00	18.5000	1.73205
OI	4	12.00	16.00	13.7500	1.70783
Valid N (listwise)	4				

Source: Output of SPSS 16

1. According to Best, (1977), standard deviation of the score from 1-1.80 is lowest, from 1.81- 2.61 is lower, from 2.62-3.41 is average/moderate, from 3.42-4.21 is good/high, and 4.22-5 is considered very good.

2. Besides, the decision rules used in the analysis was average mean less than 3 was considered as low, average mean equal to 3 was considered as medium and average mean greater than 3 was considered as high . (Best and khan1995).

The mean distribution of the dependent variable TAE of the study is 17.7500 which is greater than 3 and standard deviation statistics for TAE is 3.30404, which is less than 3.41.it shows the as per the auditors perception audit effectiveness in LTO is equal to its moderate level. The auditor's response shows on the 5 questions tax audit effectiveness in LTO is average.

The mean distribution of auditee attribute (AA) was 18.5000 which are greater than 3 and the standard deviation of auditee attribute 1.73205 which is less than 1.80 which indicates in view of the respondents there is lowest auditee attribute in large tax payer's office.

Quality of audit is determined by audit planning, audit experience, execution and communication, working papers and quality assurance approval. The mean value of audit quality was 12.7500, which is greater than 3.this implies that auditors perception on quality of audit in large tax payers audit as in its planning up to working paper preparation, the audit work is done as the audit manual indicates. The variation of audit quality measured by standard deviation was 2.98608 which is equal of its moderate score, it can be understood that the large tax payers have average audit quality.

The mean value of organizational independence was 13.7500 which is greater than its moderate value of 3.It indicates that for the large tax payers have greater than moderate organizational independence. The standard deviation of organizational independence was 1.70783which

indicates the large tax payers have less than of 1.80. Its implication is that auditor's

perception on organization was not free from unethical practices like corruption.

Organizational setting is determined by organizational status & internal organization and organizational policies and procedures. The mean value of organizational setting was 8.7500 which is greater than 3 and its standard deviation was also less than its average. So its implication is auditor's perception on organizational policies and procedures are no more workable for the audit done in LTO.

The average mean value of top management support in large tax payer's office was rated as 14.7500 which is greater than 3 and its standard deviation was 1.89297 which is also less than its moderate level. So the respondent's perception on top management's role on audit effectiveness of LTO is lower.

4.2 Correlation Analysis and Discussion

Correlation analysis is a statistical tool which is used to measure the strength or degree of linear association between two variables. The correlation coefficient, which always lays between -1 and +1, was used to measure the strength and magnitude or degree of linear association between two variables. A correlation coefficient of +1 shows a strong and positive linear relationship between two variables. On the contrary, a correlation coefficient of -1 indicates a strong and negative linear association between two series. A correlation coefficient of 0 shows that there no linear relationship between two variables. The correlation table below shows that all the independent variables have a positive and negative significant relationship with the dependent variable. The result of correlation analysis is discussed in detail as follows

Table 2: Correlation matrix between variables

Correlations

		TAE	AQ	OS	MS	AA	OI
TAE	Pearson Correlation	1	.904	-.020	.573	.087	.103
	Sig. (2-tailed)		.096	.980	.427	.913	.897
	N	4	4	4	4	4	4
AQ	Pearson Correlation	.904	1	-.200	.398	-.097	.180
	Sig. (2-tailed)	.096		.800	.602	.903	.820
	N	4	4	4	4	4	4
OS	Pearson Correlation	-.020	-.200	1	.805	.994**	-.969*
	Sig. (2-tailed)	.980	.800		.195	.006	.031
	N	4	4	4	4	4	4
MS	Pearson Correlation	.573	.398	.805	1	.864	-.748
	Sig. (2-tailed)	.427	.602	.195		.136	.252
	N	4	4	4	4	4	4
AA	Pearson Correlation	.087	-.097	.994**	.864	1	-.958*
	Sig. (2-tailed)	.913	.903	.006	.136		.042
	N	4	4	4	4	4	4
OI	Pearson Correlation	.103	.180	-.969*	-.748	-.958*	1
	Sig. (2-tailed)	.897	.820	.031	.252	.042	
	N	4	4	4	4	4	4

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

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

Source: Output of SPSS 16

The coefficient of correlation between tax audit effectiveness and audit quality is 0.904, which indicates that there is strong positive correlation between TAE and audit quality and the relationship, is significant al 0.05 level of significance. The relationship between tax audit effectiveness and audit quality is higher than the relationship between tax audit effectiveness and auditee attribute. This implies that if the quality of audit (planning, execution, working papers done as per the audit manual, experienced auditors increased in the staff) were improved in the process its effectiveness will be affected significantly.

Tax audit effectiveness is negatively correlated to organizational setting with correlation coefficient of -0.020. The relationship is negative insignificant. This implies that any change in organizational practices and procedures negatively but significantly affects its audit effectiveness in LTO.

The coefficient of correlation between tax audit effectiveness and top management supportise 0.573. It shows that there is strong and positive relationship between them. The relationship is significant al 0.05 level of significance. This implies that any improvement on managements support to the audit have a positive significant impact on audit effectiveness in LTO.

The coefficient of correlation between tax audit effectiveness and auditee attribute was 0.087. It shows that there is strong and positive insignificant relationship between them. Which implies that auditee cooperation during audit have weak or has no effect on audit effectiveness.

The coefficient of correlation between tax audit effectiveness and organizational independence is 0.103. This figure reveals that there is a weak and positive relationship between tax audit effectiveness and organizational independence in large tax payers. The relationship is significant at 0.05 level of significance. This implies that the organizations independence from unethical practices have a significant positive impact on effectiveness of the audit work.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The purpose of this study was to examine the factors affecting tax audit effectiveness using statistical analysis; descriptive statistics and correlation matrix. The research instruments were survey questionnaires developed with censes method. A total of 4 copies of questionnaire were distributed to tax auditors and all copies were found to be returned and used for analysis. Since each construct was affected by other constructs, descriptive statistics analysis was conducted by the models, using tax audit effectiveness a dependent variables, this was basically done to get the best of the constructs as well as to get predictive value of individual predictors for testing the hypotheses proposed. A tax audit is an investigation made by the tax authority in order to verify the accuracy of tax returns and attempt to detect non-compliance behavior and activities. The study applied primary approach to get advantage. In the chapter four, the data instruments(questioner) has been analyzed and interpreted in relation with the statement of the problem and objectives of the study. Then in this chapter conclusions are made by summarizing the results stated on the data collection instruments on chapter 4 and finally make recommendations on the possible findings.

5.2 Conclusions

The results of the study enable to conclude that audit quality, organizational setting, organizational independence, auditee attributes as well as top management support as a
significantly influence tax audit effectiveness in the organization studied.
However, as individual predictors: organizational setting and auditee attributes are not significant enough to undermine tax audit effectiveness. The findings of the present study are
also in conformity(consistent) with the observations of earlier studies organizational

setting, and auditee attributes are not significant influence on tax audit effectiveness (Mihret and
Yismaw,2007).

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

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

The result is consistence with the study of (Ayalew, 2014) and (Yismaw, 2007).On the other hand result of organizational independence shows; the organizations reputation in relation with unethical things especially with corruption significantly influences audit effectiveness of the organization. This result is consistence with (Sayag, 2010).In relation to top management support results implies that due attention and support of the management to the audit process has increased the audit effectiveness of the organization.

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

auditors penalize taxpayers instead of educating them, low level encourage honest taxpayers, and also deliberately some taxpayers do not support the tax auditors during the audit. It can be concluded that most taxpayers are noncompliance as result they impeded the tax audit effectiveness.

5.3 Recommendations

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

- As it was explained Audit quality play significant role on tax audit effectiveness; large tax payer's office should emphasis on that predictor, except organizational setting and auditee attribute. Organizational independence and top management support has positive influence on tax audit effectiveness and it is better to consider it.

- To use LTO as an institution indicated as a mission audit quality, organizational independence and top management support role is significant, so the organization should look at into it. In relation to this by paying attention to the needs and desires of tax auditors, reducing the corruption, the management attention to audit findings (since they are important assets owned by every organization) to perform their tax audit work the branch can achieve effective and efficient audit process and can collect what the economy produces.

- Create a good work environment by encouraging relationship among tax auditors and taxpayers, with colleagues, and immediate supervisors so that they are motivated in performing tasks/activities in the office.

- The organization should consider also the giant power its taxpayer for the economy and for the country should improve its system and work on capacity buildup of its auditors

REFERENCES

Aaron Cohen and Gabriel Sayag,(2010), “the effectiveness of internal auditing”, Australian
Accounting Review No. 54 Vol. 20 Issue 3 2010
Allingham, M.G. and Sandmo, A. (1972), “Income tax evasion a theoretical analysis”, Journal of Public
Economics.
Ayalew, E. (2014). Factors affecting tax audit effectivness ,astudy on category A tax payers in
bahir dar city adminstration revenue office ,bahirdar university ,.
Barreca, D and S. Ramachandran (2004), Improving tax administration with data mining‟,

Executive Report, TCWP-0504, Elite Analytics, LLC, available at <ftp://hqftp1.spss.com/pub/web/wp/TCWPlr.pdf>, accessed on February 2013
Baurer, Lewis I. 2005, „Tax Administrations and Small and Medium Enterprises in Developing Countries", Small and Medium Enterprise Department, World Bank.
Biber, E(2010), Revenue Administration: Taxpayer Audit Development of Effective Plans,
Technical Notes and Manuals, IMF, Fiscal Affairs Department, available at, <http://www.imf.org/external/pubs/ft/tnm/2010/tnm1003.pdf>, accessed on March 2013.
Bibisso, N. (2014).assesment of tax audit practice:the case of hawassa city adminstration.IFSMRC international publications (pvt) Ethiopia ,india.
Bou-Raad, G. 2000, 'Internal Auditors and a Value-added Approach: The New Business Regime', Managerial Auditing Journal, 15: 182–86.

Damme, L, T. Misrahi and S. Orel 2008, „Taxation Policy in Developing Countries: What is the IMF"s Involvement?", DV406 Consultancy Project, available at, <http://visar.csustan.edu/aaba/LaurenDamme2008.pdf>, accessed on June 2010.
Drogalas, G., Ioannis, S., Dimitra, K. and Ioannis, D. (2015), "Tax audit effectiveness in Greek firms: tax
auditor'sperceptions",JournalofAccountingandTaxation,Vol.7No.7,pp.123-130.
Dubin, J.A. and Wilde, L.L. (1988), "An empirical analysis of federal income tax auditi
Ebrill, L, M Keen, J Bodin and V Summers (2001), The Modern VAT, IMF, Washington DC
EC (2010), Compliance Risk Management Guide For Tax Administrations, Fiscal Risk Management Platform Group, European Union, available at < http://ec.europa.eu/taxation_customs/resources/documents/common/publications/info_docs/taxation/risk_managt_guide_en.pdf>, accessed on April 2013.
EC (2006), Compliance Risk Management Gide for tax Administrations, Fiscal
Ebrill (2010). The Modern VAT, IMF, Washington DC.
Edmiston, K. D., & R. M. Bird. (2004). Taxing Consumption in Jamaica: The GST

And SC. IPT Paper No.0414, International Tax Program, Rotman School of

Management, University of Toronto.

Fernandez, S. and Rainey, H.G. 2006, 'Managing Successful Organizational Change in the Public Sector', Public Administration Review, 66: 168–76

Gebeyehu, M. (2008). tax audit practice and its significance in increasing revenue in ethiopia the

case of addis ababa city adminstration

Getaneh Mihret, 2011, "tax Audit Practice In Ethiopia"

Grandcolas, C 2005, „Management of the VAT: Improving the Level of Compliance

using Performance Indicators, Lessons for the Pacific Islands Countries", 15 th Tax

Conference, 17-20 October 2005, Tokyo, Japan, available at, <http://www.

adb.org/Documents/Events/2005/15th-Tax-Conference/paper-grandcolas.pdf>,

accessed on February 2011.

Kastlunger, B., Kirchler, E., Mittone, L. and Pitters, J. (2009), "Sequences of audits, tax compliance, and
taxpayingstrategies",JournalofEconomicPsychology,Vol.30No.3,pp.405-418
Khadijah Isa and Jeff Pope, (2011), "Corporate Tax Audits: Evidence from Malaysia, Global

Review of Accounting and Finance, Vol. 2. No. 1. March 2011 Pp. 4

Kircher, E. E. (2008). "Enforced versus Voluntary Tax Compliance: The Slippery
Framework". Journal of Economic Psychology
Leilina, B. (2015). The determinants of external audit quality evidence from manufacturing share

companies of Addis Ababa Ethiopia. Addis Ababa University

Mihret, A. (2011). The contribution of internal audit reengineering to its effectivness;an

ethiopian public enterprise case study,.
Qtish, F. A. (2012). Internal Control and Audit Program Effectiveness: Empirical. Internati
O Ola, C.S. (2001). Income Tax Law and Practice in Nigeria, Ibadan: Heinemann Educational

Books (Nigeria) Plc

Schwartz,M.S., Dunfee, T.W. and Kline,M.J. 2005, 'Tone at the Top: An Ethics Code for

Directors?', Journal of Business Ethics, 58: 79–100.

ECD, (2004), "Compliance Risk Management Managing and Improving Tax Compliance".
OECD 2004a, „Compliance Risk Management: Audit Case Selection Method", Information Notes, October 2004, Tax Administration Compliance Sub-group, available at, <http://www.oecd.org/dataoecd/44/36/33818568.pdf>, accessed on March 2011.
OECD 2004b, „Compliance Risk Management: Managing and Improving Tax Compliance", Guidance Note, October 2004, Tax Administration Compliance Sub-group, available at < http://www.oecd.org/dataoecd/21/55/37212610.pdf>, accessed on March 2011.
OECD, (2006), "Strengthening Tax Audit Capabilities", General Principles and Approaches, Paris
OECD 2006a, „Strengthening Tax Audit Capabilities: General Principles and Approaches", Information note, October 2006, Tax Administration Compliance Sub-group, available at < http://www.oecd.org/dataoecd/46/18/37589900.pdf>, acc
OECD (2006b). Strengthening Tax Audit Capabilities: Auditor Workforce Management Survey Findings and Observations", Information note, September 2006, Forum on Tax Administration Compliance Sub-group, Center for Tax Policy and Administration.
OECD (2010), "Understanding and Influencing Taxpayers' Compliance Behaviour

Okonkwo, A. T. (2014). Critical evaluation of tax audit & investigation processes in

enhancing tax compliance, being paper presented at the CITN MRTP in Uyo on

October 8-9.

Schwartz,M.S., Dunfee, T.W. and Kline,M.J. 2005, 'Tone at the Top: An Ethics Code for

Directors?', Journal of Business Ethics, 58: 79–100
Slemrod, J. (2000), Why People Pay Taxes: Introduction', in Slemrod, Joel (ed.), Why People

Pay. Taxes: Tax Compliance and Enforcement, Ann Arbor, University of Michigan Press.

Thomson, R 2008, „Strengthening Risk Management and Audit Strategies to Improve

Compliance", Paper presented at Caribbean Organization of Tax Administration

(COTA) General Assembly, July 2008, CARTAC, Belize, available at,

<www.cartac.org/COTA%20Paper%20Strengthening%20Risk%20Management%

20Final.pdf>, accessed on March 2011.

Van Peursem,K.A. 2004, 'Internal Auditors'Role andAuthority – New Zealand Evidence', Managerial Auditing Journal, 19: 378–93.

www.emeraldinsight.com/journals.htm?articleid=1653847&show=pdf), "similarities between compliance audit and internal audit.

Yismaw, D. G. (2007). Internal audit effectiveness: an Ethiopian public sector case studyManagerial Part

APPENDIX

Wolkite University

College of Business and Economics

Department of Accounting and finance

Dear respondent,

This questionnaire is prepared by Abebayehu Abel student of Wolkite University, College of Business and Economics and department of Accounting and finance who is working on the research topic "Factor that affect tax audit practice in Guraghe zone Revenue and custom Authorithy**"** The researcher prepared this questionnaire for the partial fulfillment of BA degree in Accounting and finance.

The response will be used for part of the data needed for the study of '' *factor that affect tax audit practice in Guraghe zone Revenue and custom Authorithy***"** The result of the study is expected to contribute the understanding of factor that affect tax audit practice Therefore, I believe you will assist the completion of the study by participating. The questionnaire includes all the directions necessary to complete the response without assistance. Since the success of this study depends on the organization of all targeted respondents, the information that will be obtained from the questionnaire will not identify individual respondents in the study. Hence, your response will be used in aggregate terms. I would also like to assure you that the information you provide will be accessible only to the undersigned researcher only.

Your honest and thoughtful response is invaluable

Thank you for your participation!!

The following questions are prepared to get general information.

Notice

- ⇨ No need of writing your name
- ⇨ Please respond by putting (√) or writing

⇨ **Part I Personal Information**

1. What is your level of education?

1. Diploma ☐ 2.Degree ☐ 3. Master's degree or abo ☐

2. What is your field of study?

1.Accounting ☐ 2. Management ☐ 3. Econo ☐

3. What is your current position in the office?

1.Process owner ☐ 2.Auditor ☐ 3.Team leader ☐

4. How long have you been working in this position?

1. Less than two years ☐

2. 2-6 years ☐

3.Greater or equal to six years ☐

Part II: Questions related to Measure Audit Effectiveness

- please use a tick (√) mark for your thought and where appropriate give your opinion in table where 5 indicate strongly agree, 4 agree, 3 neutrals, 2 disagree, 1 strongly

1.please indicate the degree to which you agree with the following statements concerning with Tax Audit Effectiveness.

No	**Tax Audit Effectiveness**	1	2	3	4	5
5	Can you believe Tax audit improves organizational performance.					
6	Tax audit determines the adequacy and effectiveness of the organization's systems of internal accounting and operating controls					
7	Tax audit reviews the accuracy and reliability of financial reports					

8	Tax audit reviews the economical, effective and efficient use of resources					
9	Tax audit improves the organization's productivity of the company					

2.please indicate the degree to which you agree with the following statements concerning

with Auditee attributes

No	**Auditee attributes**:	1	2	3	4	5
10	In Large tax payer's office, there is transparent audit procedure and audit decisions are made based on facts.					
11	The current working capacity of audit staff is well aware of the tax laws and regulations.					
12	Auditors give sufficient education to the taxpayers about the tax laws and regulations during auditing					
13	Do LTO auditors accept taxpayers' suggestion to improve the tax function?					
14	There is a good work relationship between the taxpayers and tax auditors.					

3.please indicate the degree to which you agree with the following statements concerning

with audit Quality

No	**Audit Quality**	1	2	3	4	5

15	Quality assurance is an appropriate tool to ensure quality of audit work in LTO ?					
16	Tax auditors in LTO have appropriately prepared working papers after their audit work ?					
17	Tax auditors are able to cover all organizational units and all issues in their audit activity?					
18	Is Tax auditors in LTO have appropriate audit plan in all their audits?					
19	There is regular follow-upon those taxpayers to examine actions taken to correct the audit findings found?					

4. please indicate the degree to which you agree with the following statements concerning

with Organizational independence .

No	**Organizational independence:**	1	2	3	4	5
20	Are tax auditors in LTO having appropriate ethics of international profession?					
21	Do you think tax auditors in LTO are free from any corruption?					
23	Tax auditors have free access to information and data about the organization, and unrestricted access to its site;					

24	All organizational data pools (data bases, contracts, etc.) are accessible to the tax auditor and examined by the auditor					
25	Rotation of tax auditors into a variety of organizations and into different sectors has an impact on audit effectiveness					

5,please indicate the degree to which you agree with the following statements concerning

with Organizational setting

No	**Organizational setting**	1	2	3	4	5
26	Tax audit is one stage in training and preparing employees in the organization.					
26	Tax audit is one stage in the promotion process of employees in the organization.					
27	Tax audit is considered a stage in the organizational independence of employees in the organization					

6,please indicate the degree to which you agree with the following statements concerning

with Top management support

No	**Top management support**	1	2	3	4	5
28	Top managements in LTO doesn't provide with the support expected from them?					
29	The number of employees in tax audit is limited given the amount of auditing work planned and needing to be done in the near future;					

30	Management is not sufficiently aware of the needs of tax audit, as demonstrated by the small budget assigned to this process?					
31	Management does not provide enough support and encouragement for training and developing the tax auditors– another indication that it does not recognize the importance of this issue.					