

Factors Affecting Tax Audit Effectiveness: Study on Taxpayers in Case of City Administration Revenue Office

Dagnachew Tamene Ano¹, Ebrahim Misganaw Muhiye² Lamesgin Zewde Demelle³, Seid Kassaw Yesuf⁴
Alemu Mengistu Regasa⁵

^{1,3,4,5}Lecturer, Department of Accounting and Finance, College of Business and Economics, Samara University, Semera, Ethiopia.

²Lecturer, Department of Economics, College of Business and Economics, Samara University, Semera, Ethiopia.

Abstract—The purpose of this study was to investigate the factors affecting tax audit effectiveness using statistical analysis of quantitative approach. The population of the study includes the entire set of all tax auditors and tax payers in the Samara City Administration Revenue Office. Accordingly, the study aims to examine the statistical significance between factors and tax audit effectiveness. In light of this objective the study adopted quantitative method of research approaches to interpret the collected data by properly. Specifically, the study used survey of questionnaire analysis of revenues offices' tax auditors and taxpayers' response. Simple random sampling design was employed based on nature of target population. Then tax auditors and taxpayers were selected based on simple random sampling method of census and lottery method

respectively. Consequently, the study selected a sample of three hundred sixteen (316) individuals with the total of 1263 observations. Data was then analyzed on quantitative basis using Pearson's correlation, linear regression analysis and descriptive statistics. The results showed that there is no statistical significance negative relationship between audit attributes and tax audit effectiveness. Besides, the results showed that there is no statistical significance positive relationship among organizational setting, top management support and tax audit effectiveness. The researcher found that there is strongly significant positive relationship among audit quality, organizational independence and tax audit effectiveness.

Index Terms—Revenue office; tax audit effectiveness; factors affecting tax audit effectiveness.

I. INTRODUCTION

1.1 Background of the Study

Taxation is one of the important elements in managing national income, in both developed and developing countries. Tax is defined as 'a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return'(Lymer and Oats, 2009). However, not all payments to government are considered tax payments: for example, charges, and other levies are paid to obtain a specific service and are not strictly tax payments.

Tax is a pecuniary burden levied upon individuals or property to support the government, and its payment exacted by legislative authority (Aronson, 1985). It is compulsory payment which is related with certain business activities. Revenues collected via taxation are used to buy the inputs essential to provide government supplied goods and services or to reallocate purchasing power among peoples (Hyman, 2011). According to Bird (2010), political willingness, a clear strategy and adequate resources are ingredients that are essential to effective tax administration. Unfair and unpredictable tax administration might bring tax system into disrupt and deteriorate legality of government

Taxes have been acknowledged as a major source of public revenue (Beza, 2014). For that reason, states have been trying to implement and establish dynamic tax systems that will not only ensure the public revenues, necessary for the economic state functioning, but will also enhance citizens' trust towards governments in terms of fairness in the

distribution of income tax burdens. Building on the above, tax compliance and tax accounting have been radically changing in most countries worldwide (Colon & Swagerman, 2015), while tax audit is currently at a crucial stage, because the overall economic growth and increasing regulation all stand to contribute to the ongoing need for audit services (Karagiorgos, Drogalas, Pazarskis, & Christodoulou, 2006).

One of the main reasons why the government imposes taxes is to generate income to manage the economy and redistribute resources. In 2007, tax collection as percentage of Gross Domestic Products in developed countries like the United States of America and the United Kingdom were 28.33% and 36.6% respectively (average Organization for Economic Co-operation and Development countries in 2006 were 35.9%). For developing countries, like Indonesia and Malaysia in 2008, the tax collections as percentage of GDP were 13.35% and 15.3% respectively. According to Allingham and Sandmo (1972),

For provision of basic facilities and other social services, governments undertake huge public expenditures like education, health, infrastructures on behalf of their citizens. Thus governments require funds in order to meet up with these responsibilities. Taxation is one of the most important elements in managing national income in both developed and developing countries. Tax therefore, is defined as a compulsory levy, imposed by government or other raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return (Lymer & Oats, 2009).

According to Tadesse & Goitom (2014), like other developing countries, Ethiopia faces vaults in raising revenue to the required level in order to scale up the development endeavors. Ethiopia has experienced a steadfast expenditure surplus over revenue for a long period of time. Therefore effective tax audit program of revenue body performs a number of important roles and can make a significant contribution to improved administration of the tax system

Many countries have adopted the self-assessment system (SAS) in order to simplify the tax assessment system and encourage voluntary compliance. Self-assessment system helps to encourage voluntary compliance, reduce tax evasion and make taxpayers more responsible. Under this system, taxpayers are expected to render tax returns based on their income,

determine their tax liabilities and pay within the time stipulated by law. In order to sustain the credibility of this system, it is subject to verification by the relevant tax authorities (Ojonta, 2011). In Ethiopia, SAS was recently introduced in 2005 (Niway & Wondwossen, 2015). During self-assessment tax system (SAS), enforcement activities, in particular tax audit is regarded as the primary strategy taken in ensuring a high level of tax compliance (Singh, 2005).

Recently many poor countries have become preoccupied with improving tax systems. For instance, Ethiopia amended the tax laws with new provisions and procedures to assist the taxpayers in complying with self assessment process so as to reduce tax evasion there by increasing the revenue generated through tax, such as government replaced the sales tax with Value Added Tax (VAT) and Turnover Tax (TOT). Furthermore, the Federal Democratic Government of Ethiopia is trying to improve its tax administration capacity which encompasses tax audit as one of its component (Misrak, 2008 cited in Hailemariam, 2011).

Tax administrations carry out audits so as to verify that the taxpayer has complied with provisions of the tax legislation (OECD, 2006). 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 (Kirchler, 2007). However, the role of an audit in a modern tax administration goes beyond verifying a taxpayer's reported obligations and detection of discrepancies between a taxpayer's declarations and supporting documentation.

The Semera City Administration Revenue 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 regulations. If the taxpayer has 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 in 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.

To collect the necessary tax revenue from the taxpayers, countries should design different mechanisms of tax collection. Effective tax audit is one of the mechanisms that help to collect the estimated governments' revenue from tax. Of course, there are factors that affect the tax audit effectiveness such as tax legislation, information system, education level of the tax auditors, experiences of tax auditors, and the trainings that are given to tax auditors (Drogalas et al. 2015). However little research has focused on factors affecting of the tax effectiveness and in Afar in particular; therefore, this study emphasis on the issues that factors affecting tax effectiveness of tax audit in Semera city administration Revenues Office

1.2. Statement of The Problem

Global economic crisis coupled with uncertainty and instability of aid flows has given due attention for governments to look for stable and sustainable modes of development finance (Bhushan & Samy, 2012). In addition, excessive reliance on foreign financing may in the long run lead to problems of debt sustainability, which together insist on least developed countries to rely substantially on domestic revenue mobilization (Gupta, 2007). One of the best ways which the government can use as a source of revenue is taxation. As in all other countries, one of the purposes of taxation in Ethiopia is the raising of as much revenue as possible to meet the ever-expanding public expenditure for the supply of public goods and services (Ethiopian Chamber of Commerce & Ethiopian Business Development Services Network, 2005).

Generating revenues and increasing tax bases of any government depends on the properly designed tax administration system of the countries. As Bird (2008) noted, it is unquestionable to ensure that the revenue collected from tax should be raised in efficient and effective manner. Governments raise revenue for their expenditures through taxation as a main source of income, but several means of revenue generation are set by governments Mousa (2005). Since tax is the main source of revenue, most governments practice to use taxation so that generating most of their fiscal requirements. The proper use of enforcing tax laws, examining taxpayer's systems and financial documents by the tax auditors for the selected business companies are crucial to check whether the taxpayers

declared correctly their tax liabilities through tax audit. It may include cross checking of taxpayer's records with those of taxpayer's suppliers 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). Auditors do not only depend on the documents and information that is delivered by audited taxpayers but also check indirectly other organizations' /parties'/ documents and information which have relations in the business transaction activities with the audited taxpayers. This technique helps to the auditors to get additional information and to check the reliability of the information and documents delivered by the auditing taxpayers.

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 tax payers 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 cross checks of taxpayer's records with those of taxpayer's suppliers or with other government departments and agencies source of information and its effectiveness and efficiency must be guaranteed by means of proper procedures and application of modern audit tools and techniques (OECD, 2006).

A tax audit is one of the most sensitive contacts between the 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. Although the Council of the Afar National Regional State issued proclamations, regulations and directives in a different period to improve tax administration in general and the tax audit in particular the Semera City Administration Revenue Office tax audit performance is very low by the following

factors: From the Year 2009/10 up to 2011/12 audit Performance of the revenue office shown that the number of files submitted by the taxpayers are 219,267 and 330 and those by audited are 94, 108 and 75 respectively, additionally their performance percentage is 43%, 40% and 22% respectively. Thus we can understand that the organization audit coverage performance is 34%. On the contrary, 66% of the files remained unaudited. Previous studies found that the major factors affecting internal audit effectiveness are organizational setting, audit quality, top management support, auditee attributes and organizational independence (Mihret and Yismaw, 2007 and Aaron Cohen & Gabriel Sayag, 2010). However, empirical studies are lacking to identify factors affecting tax audit effectiveness in our country Ethiopia. This study, therefore, considers the above mentioned variables as independent and it verifies if they are influencing on tax audit effectiveness in Samara city administration revenue office tax audit effectiveness. A well designed tax audit needs a risk based audit program and application of standardized technology to determine the type of audit, procedures and duration of audit so as to achieve its objective. However, according to regional revenue authority's tax audit strategies review result indicate well designed risk based tax audit is not in place. To the best of the knowledge lack of study has been carried out so far to verify the factors affecting tax audit effectiveness in terms sufficient and qualified tax auditors, sufficient resource allocation, well designed audit selection systems, audit strategies and audit manuals, audit scope, sufficient monitoring and performance evaluation system, motivation schemes, information technology, integrity of audit staff, and taxpayers attitude and knowledge about tax audits. For this reason, the researcher strongly believes that, this research would answer the question behind, what are the factors affecting tax audit effectiveness. Hence, on the basis of the problem area this study tried to address the following research questions.

1.3. Research Question

- 1) What are the factors affecting the organization's tax audit effectiveness?
- 2) How far the revenue office tax audit systems and auditors are monitored and evaluated?
- 3) How far the organization's tax audit performances towards tax audit effectiveness?

- 4) What are the compliance issues associated with taxpayers' responsibilities during tax auditing?

1.4 Objectives of The Study

1.4.1 General objective

The main objective of this study is to to assess the factors affecting tax audit effectiveness of the Semera city administration revenue office in Afar region.

1.4.2. Specific Objectives

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

- 1) To identify the factors affecting of tax audit effectiveness of Samara city administration of revenue office.
- 2) To evaluate the organization's tax audit systems and auditors monitoring and evaluating.
- 3) To evaluate organizational tax audit performance towards tax audit effectiveness at Samara city administration of revenue office.
- 4) To identify the taxpayers' responsibilities during the tax auditing in Samara city administration. .

II. RESEARCH METHODOLOGY

2.1 Research Approach

The study will applied quantitative approach to describe and evaluate the factors affecting tax audit effectiveness in samara City Administration Revenue Office. Well designed and implemented quantitative research has the merit of being able to make generalizations, for a broader population, based on findings from the sample. However, the applications of both approaches enable the researcher to obtain adequate, relevant and reliable data to the issue under study.

2.2 Quantitative research approaches

Quantitative research is grounded in the post-positivism knowledge claim that primarily reflects the scientific method of the natural sciences. The researcher gathers data from the real world setting and then analyses the data statistically to support or reject the hypotheses (Robert K. Yin, 1994).

Quantitative techniques as an attempt to interpret the collected data by properly it into the research design and responding to it by measuring its strength and weaknesses that give numerical measurements to the data collected.

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

2.3. Research Methods

The main objective of this study would to examine the factors affecting tax audit effectiveness in samara City 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.

2.4. Sampling Design

2.4.1. Target Population

The population of the study includes the entire set of all business income taxpayers particularly tax payers and tax auditors operating in the Samara City Administration revenue office.

Accordingly, the target groups for the study were 1250 business income taxpayers; these populations consist of business income taxpayers who are existed in the city and 13 tax auditors of revenue office.

2.4.2. Sampling Frame

For this study the sampling frames would the list of 1250 target populations of taxpayers at city administration, and 13 Revenue office staff tax auditors from which the required number of sample size were drawn, which was available in the samara city administration revenue office.

2.4.3. Sampling Unit

The sampling units for this study would the individual businesses income taxpayers, and the second set of sampling unit comprises Samara City Revenue office tax auditors and enforcement core process employees of tax audit depending on their responsibility and experience in their office.

2.4.4. Sampling Techniques

For this study the researcher would use probability sampling techniques to identify the respondents from taxpayers, even if there are different types of probability sampling techniques, the appropriate one for this study is simple random sampling method of a lottery method in which tickets are prepared for each unit of the population. Then the tickets are mixed up and the required number of tickets (sample) will drown from the tickets, because it improves the accuracy of the sample (Hammond and McCullagh, 1974) because of the target population of the study has one stratum, based on their attributes that is income or sales: taxpayers.

On the other hand, the researcher used census method to select respondents form revenue office. That is, in Samara city administration revenue office, there are 13 tax auditors. Census method is the most reliable sampling techniques especially if the number of population is small. Hence, the target population of tax auditors is small.

2.4.5. Sample Size

To ensure the validity of the findings, the study would be used adequate sample size. The researcher determined to accept at 5% sampling error and wanted to be at 95% confidence with the findings of this study. Having determined the accuracy and level of confidence, the sample size determination adopted from (Glenn D. Israel, 2013).

The reason for 95% level of confidence was based on the homogeneous characteristics of business income taxpayers, that is, taxpayers pay their tax liability based on their annual transaction and most taxpayers show unwillingness to tell their actual sells transaction due to this, error at five percent did not affect the reliability and validity of the results. The target or the theoretical population of the study constitutes two specific sets of units from which the sample were actually drawn. The first set of sampling unit comprised all registered business income taxpayers in operating in Samara City administrations that are currently about 1250. The second set of sampling unit comprised revenue office tax auditors and enforcement core process owner staff members who are about 13 at the time of data collection.

In agreement with the above argument in each sample frame based on simple random sampling techniques. Hence, business income taxpayers of the total respondents of taxpayers in the samara City

administration revenue office and revenue office staff tax auditors and enforcement core process are samples will be selected to be respondents or participants of this study, but the population of tax auditors are selected as a sample by census because a zone is a small group of population, then the total sample size is 316.

The equation to determine sample size is:

$$n = \frac{N}{1 + Ne^2} \quad \text{where:}$$

n=sample size, N= population

e = allowable error

$$n = \frac{1250}{1 + 1250(0.05)^2}, n = 303 \quad \text{no.of auditors}$$

=13

2.5. Source of Data

2.5.1. Primary Data Sources

The main bases for the study would 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 four score likert scales to provide respondents a wider range of alternative with end points where “4” the level of agreements are represent by 1 to 4. Strongly agree 4, agree 3, disagree 2, and strongly disagree represented by 1 and also includes Yes/No questions on the matter related tax audit.

2.6. Data Collection Methods

In conducting the research data that are will be used primary data. Among the different primary data collection methods questionnaires are the main that have been most usually applied in this paper.

Questionnaires: the researcher would have used to collect primary data form respondents and its advantage is covering a large number of respondents easily and quickly. To gather the necessary data close ended questions were used and translated in to the local language, which is Amharic for taxpayers. The researcher has developed two types of questionnaires, for taxpayers and revenue tax auditors and their enforcement process owner’s staffs.

Questionnaires were distributed to the selected respondents to get primary data on the factors

affecting tax audit effectiveness. The questionnaires consist of two sets: The first set of the questionnaire has provided to the tax auditors and their enforcement core process staff .The second set of the questionnaire were provided to taxpayers.

2.7. Methods of Data Analysis and Interpretations

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

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

The collect and analyze data will be presented by using the following data presentation tools: tables, histogram and regression, along with sufficient interpretations.

2.8. Model specification

Therefore, the formula used for the model is

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

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

Where:

TAE = tax audit effectiveness

AQ = audit quality

OS = organizational setting

MS = management support

AA = auditee attributes

OI = organizational independence

Where Y stands for the mean values of the Tax Audit Effectiveness where as β_0 , X_1 , X_2 , X_3 , X_4 , X_5 and ϵ denote the intercept of the equation, mean values of audit quality, mean values of organizational setting, mean values of management support, mean values of auditee attributes, mean values of organizational independence and error term of the equation respectively. In addition, β_1 , β_2 β_3 β_4 and β_5 are the parameters of the equation.

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

III. DATA PRESENTATION, ANALYSIS AND INTERPRETATIO

In this study both descriptive statistic and regression analysis were used to analyze the data. The descriptive statistics utilized in this research used to analyze the demographic data included frequency, percentages. Inferential analysis is concerned with the various test

of significance for testing correlation, autocorrelation, and multicollinearity in order to determine with what validity data can be said to indicate some conclusion(s). The data collected from the returned questionnaire were entered into SPSS (Statistical package for social science software) version 20 for analysis. The data was sorted to group questions according to applicable constructs under test. Finally correlation and regression analysis were performed. In this study, a multiple regression analysis was performed by using all the discrete variables (dependent and independent) variables available in the dataset. The location of the study was Semera city administration revenue office.out of 303 sameple selected respondents 245 respondents were give response but the remaining of 58 respondents were nor give response, Therefore for this study the 245 respondents were participated, and 13 employees of Semera city administration revenue office were participated

PART I- PROFILE OF TAXPAYERS RESPONDENTS

3.1. PERSONAL INFORMATION OF TAX PAYERS

Table 1.gender of respondents

Sex	Frequency	Valid Percent	Cumulative Percent
Female	81	33.1	33%
Male	164	66.9	70%
Total	245	100.0	100%

Source; survey own SPSS data,2025

From the above table 1 it is clearly visible that item reveals that relatively large number of taxpayers respondents 164 (70%) are male however, the small number of taxpayers respondents 81 (33%) are female.

The majority of the male taxpayers are more than female so that they might have influence to cooperate the tax audit process of the Semera city administration revenue office.

Table 2. level of qualification of respondents

Level of education	Frequency	Valid Percent	Cumulative Percent
1-10 grade	5	2.0	2%
Certificate	27	11.0	11%
Diploma	80	32.7	32%
Degree	132	53.8	54%
Master and above	1	0.5	1%
Total	245	100.0	100%

Source; survey own SPSS data,2025

Assessment of respondents' education status portrays that 2%, of respondents are have from 1-10th grade

level ,11% of respondents are certificated,32% of respondents are diploma holder, 54% of the

respondents are first degree holder and the remaining of 1% of respondents are master and above hold. Thus, most taxpayers are educated and capable enough to

understand about their duties and responsibilities as a taxpayer.

Table 3. The business types of respondents

Your business is	Frequency	Valid Percent	Cumulative Percent
Sole proprietorship	128	52.2	52%
partnership	90	36.7	36%
Private limited company	15	6.1	6%
Other	12	4.9	5%
Total	245	100.0	100%

Source; survey own SPSS data, 2025

Regarding the issue of the taxpayer’s business type, 52% of respondents are sole proprietorship, 36% of respondents are partnership, 6% of respondents are private limited company, and 5% respondents are others business. Then the majorities (52%) of the respondents are sole proprietors.

the Regional states have a power to assess and collect from the sole proprietor taxpayers. That is why more of the respondents are sole proprietor. They might have no sufficient recording system for transaction in the case of lack of manpower so that they might have influence on tax audit function.

In these figure strengths by the constitution of the Federal Democratic Republic of Ethiopia states that

Table 4. business activity of the respondents

Main business activity	Frequency	Valid Percent	Cumulative Percent
Manufacturing	12	4.9	5%
Trade	106	43.3	43%
Service	88	35.9	35%
Construction	35	14.3	14%
Others	4	1.6	1%
Total	245	100.00	100%

Source; survey own SPSS data, 2025

The other issue presented to the respondents about the business activities, 5% from the total respondents are engaged on manufacturing type of business activities, 43% of them replied on trade activities, service (35%), construction (14. %), and the remaining (1%) of the respondents are engaged on others types of activities .The figure clearly shows a fair distribution of taxpayers the sample. This implies that those business

organizations have different categories of business activities and tax audit experience that may provide more reliable research findings in tax audit effectiveness.

PART II- TAX PAYERS RELATED TO RIGHTS AND RESPONSIBILITIES

3.2. TAX PAYERS OF RIGHTS AND RESPONSIBILITIES

Table 5. Availability of information

Available information to tax auditors during auditing	Frequency	Valid Percent	Cumulative Percent
Yes	163	66.5	67%
No	82	33.4	33%
Total	245	100.0	100%

Source; survey own SPSS data, 2025

The above table 5 shows the respondents asked to assert the taxpayers' give adequate information to tax auditors at the time of auditing is no(33%) and yes(67%), majority of the respondents are agree on the issue that means most taxpayers' give documents such as sales invoices, vouchers , financial statements, and

any necessary information. This research finding is that auditors have got necessary information for auditing purpose. From the analysis the study can conclude that the taxpayers' knowledge is good at the required level.

Table 6. Good communication to tax audit

Good communication to tax auditors based on tax laws	Frequency	Valid Percent	Cumulative Percent
Yes	143	58.4	58%
No	102	41.6	42%
Total	245	100.0	100%

Source; survey own SPSS data, 2025

According to the above table 6 shows that 58% of respondents are replied that have good communication to tax auditors based on tax laws and the remaining of 42% of respondents are replied that not have good

communication to tax auditors based on tax laws. Then the study conclude that the majority of respondents are have good communication to tax auditors based on tax laws

Table 7. Enough knowledge's of respondents

Enough knowledge about the tax laws and regulations	Frequency	Valid Percent	Cumulative Percent
Yes	112	45.7	46%
No	133	54.3	54%
Total	245	100.0	100%

Source; survey own SPSS data, 2025

As shown the above table 5, majority of the respondents (54%) replied that the taxpayers have low level of knowledge towards the tax laws and regulations. This is due to the inadequacy of education gives to the taxpayers by the organization; on the other hand a few (46%) members of them replied as taxpayers have knowledge about their duties and responsibilities. However, the revenue office was providing education to the taxpayers using both

printed and electronic media: news papers, magazines, brochures, radios, televisions, conferences and exhibitions. The findings indicated that, the taxpayers' knowledge toward the tax laws and regulations is at its lower point. Then it concluded that the taxpayers' have low level compliance or agree to do the tax laws. The consequence of low level compliance may be affect tax audit.

Table 8. Employees of independency

Employees of independent accountant and managers	Frequency	Valid Percent	Cumulative Percent
Yes	137	55.9	56%
No	108	44.1	44%
Total	245	100.0	100%

Source; survey own SPSS data, 2025

As shown from the above table, the respondents asked to assert the taxpayers' have independent accountant and managers is no(44%) and yes(56%), majority of the respondents are agree on the issue that means most

taxpayers' have employees of accountant and managers . This research finding is that auditors may have got necessary information and the internal control system may be well for auditing purpose.

Table 9. business transaction

Business transaction based on general accepted accounting	Frequency	Valid Percent	Cumulative Percent
Yes	161	65.7	66%
No	84	34.3	34%
Total	245	100.0	100%

Source; survey own SPSS data, 2025

The other issue presented to the respondents about the recording of business transaction based on general accepted accounting principles(GAAP), no (34%) from the total respondents are not agree, yes(66%)

respondents are agree .The figure clearly shown that the taxpayers have followed the GAAP. Moreover, which might be available to tax audit function

Table 10. sufficient benefit

Sufficient benefit from your income	Frequency	Valid Percent	Cumulative Percent
Yes	127	51.8	52%
No	118	48.2	48%
Total	245	100.0	100%

Source; survey own SPSS data,2025

According to the above table, majority of the respondents (52%) replied that the taxpayers have a sufficient benefit from their income and 48% respondents have no sufficient benefit. This is due to that indicating the majority of taxpayers may have

knowledge about their duties and responsibilities. The findings indicated that, the taxpayers’ knowledge toward the tax laws and regulations is at its proportional point.

PART III- INVESTIGATION RELATE TO ORGANIZATIONAL PERFORMANCE

3.3. AN INVESTIGATION OF ORGANIZATIONAL TAX AUDIT FUNCTION

Table 11. tax payer recording

Any legal obligation to maintain the tax payers' recording	Frequency	Valid Percent	Cumulative Percent
Yes	8	61.6	62%
No	5	38.4	38%
Total	13	100.0	100%

Source; survey own SPSS data, 2025

As indicated in the tables 11 above, (38%) of the respondents are not agreed that those taxpayers should maintain books of accounts. But under Ethiopian tax proclamation No.286/2002 tax payers shall maintain their own book of accounting records and at the end of the year shall submit to the tax authority a balance sheet and a profit and loss statement supported by

appropriate vouchers and document. Based on results, (62%) of the respondents are agreed that those taxpayers should maintain books of accounts. It concluded that those taxpayers maintain books of accounts with the support of appropriate vouchers and documents have a positive impact for organizations audit effectiveness.

Table 14. Staff motivation

Staff motivation scheme level is high	Frequency	Valid Percent	Cumulative Percent
No	12	92.3	92%
Yes	1	7.7	8%
Total	13	100.0	100%

Source; survey own SPSS data, 2025

Even though auditors have good working experience and professionalism without motivation scheme the revenue office do not achieve its targets, because of low level of motivation more experienced and professional auditor leave from the organization. Hence the majority (92%) of the respondents replied

that the existing motivation scheme is low. The majority of the respondents indicated, audit staffs are unsatisfied with their motivation scheme. Therefore the consequents' of this is that the audit affects the organization audit performance.

Table 15. Expectation of tax laws

Audit manual can give detail explanation of tax laws	Frequency	Valid Percent	Cumulative Percent
Yes	4	30.7	31%
No	9	69.3	69%
Total	13	100.0	100%

Source; survey own SPSS data,2025

For more efficient and effective tax audit not only need professional and educational persons but also need audit support tools. Among those audit manual is one of the determinant factors for audit effectiveness, because it is detailed explanation and interpretation of tax laws and regulations, based on this majority of the respondents (69%) are replied that an organization audit manual is not well detailed explanation and

interpretation tax laws and regulation, on the Other hand 31% of the respondents is agreed. This research finding that, an organization has an audit manual not well designed. Then the study concluded that the organization auditors' not fully implemented according to the tax rules and regulations and lastly it may be a critical factor for effective tax audit.

Table 16. Individual auditor selection

Individual auditor selecting the cases	Frequency	Valid Percent	Cumulative Percent
Yes	2	15.4	15%
No	11	84.6	85%
Total	13	100.0	100%

Source; survey own SPSS data,2025

Most of the respondents (85%) said that an individual auditor can't select the taxpayers audit cases. This idea can be supported by the tax audit and enforcement process owner said that taxpayers audit case selection can take place by team committee members. Team committee members will select the declarations of taxpayers for all taxes to test with law. After reviewing a taxpayer's declaration, considering information

about the taxpayer's compliance history, the team committee will apply appropriate risk criteria in selecting a taxpayer for audit using manual based selection system. This finding indicated that the taxpayers audit case selection is performed with a committee rather than an individual auditor's for the purpose of fair and transparent audit case selection.

Table 17. performing the audit work

you are performing the audit work as per general audit	Frequency	Valid Percent	Cumulative Percent
Yes	8	61.6	62%
No	5	38.4	38%
Total	13	100.0	100%

Source; survey own SPSS data,2025

As per the result, more of 62% of the respondents agreed that tax auditors perform their duties and

responsibilities based on the generally accepted auditing standard and about 38 % of the respondents

were disagreement on the same issue. At most proportional of the respondents are disagreed, it clearly revealed the absence of standards; because of lack of clear auditing standards every auditor decide by his own standards for their clients due to this

auditors are inconsistent in their comments and do not comply with tax legislation, and not fully applied generally auditing standards as a result it might be affects on the quality and effectiveness of audit results.

Table 18. Access to get information

Auditor have appropriate powers of access to get information	Frequency	Valid Percent	Cumulative Percent
Yes	11	84.6	85%
No	2	15.4	15%
Total	13	100.0	100%

Source; survey own SPSS data,2025

The survey data has shown that majority (85%) of the respondents agreed that an auditor has an appropriate powers to get accesses information regarding to audit purpose while 15% of the respondents not accepted this issue. To strengthen the majority of the responses in income tax proclamation No 286/2002 stated, auditors are required to contact as much research on the taxpayers' operation and all the procedures to be

taken at the taxpayer's premises and can also obtain information from third parties like financial institutions, regional revenue authority data base, other regions and customers and supplies of the taxpayers. Therefore it can be conclude that an auditor power has useful to make reliable decision of audit results and also positive impact for smooth and effective functioning of auditing.

Table 19.The examination techniques

the examination techniques are effective in detecting fraud	Frequency	Valid Percent	Cumulative Percent
Yes	7	53.8	54%
No	6	46.2	46%
Total	13	100.0	100%

Source; survey own SPSS data, 2025

Furthermore, with respect to the examination techniques are effective in detecting fraud and determine the accurate tax liability, about 46% of the respondents said that the organization62 examination techniques are ineffective in detecting fraud and determine the accurate tax liabilities while the

remaining 54% were agreed on the same issue. The analysis of the response indicates that the existing examination techniques may be effective proportionality in detecting fraud and determine the accurate tax liability.

Table 20. Tax audit function

tax audit function have adequate resources	Frequency	Valid Percent	Cumulative Percent
Yes	4	30.7	31%
No	9	69.3	69%
Total	13	100.0	100%

Source; survey own SPSS data, 2025

Revenue office typically has at its disposal a finite level of resources to conduct the day to day business of revenue administration; hence from the above table 20 it is clearly visible that, about 69 % of the respondents said that audit section has inadequate

resources while 31 % of them are agreement on the issues. According to the respondent, then it can be concluded that there is lack of resources in the organization that can inhabit the smooth functioning of audit.

Table 21. Sufficient Employees

you believe that your office has sufficient employees in tax audit	Frequency	Valid Percent	Cumulative Percent
Yes	3	23.1	13%

No	10	76.9	77%
Total	13	100.0	100%

Source; survey own SPSS data,2025

For the effective and efficient tax audit not only the skilled and qualified of tax auditors but also adequate numbers of tax auditors may have great impact.

Regarding this, most of (77%) of the respondents replied that in the revenue office audit section has insufficient employees of auditors which means

currently only 13 auditor serves for 1250 auditing taxpayers, which may be fails below compared with the international standards (auditors are 10% of the total administrative staffs). Therefore the findings indicated that the Semera city revenue office has low performance of audit.

Table 22. Give attention for audit

the respective government officials give attention for tax audit	Frequency	Valid Percent	Cumulative Percent
Yes	11	84.6	85%
No	2	15.4	15%
Total	13	100.0	100%

Source; survey own SPSS data, 2025

Giving attentions by the respective government officials are very essential, due to this reason majority of the respondents (85%) are agreed that the respective government official give attention for tax audit section. On the other hand 15% of the respondents did not agree on the same statement. The majority of the response agreed that the government officials give attention for the revenue office especially for audit section. The result indicated that may be low level of

governmental attention for tax administration particularly in tax audit.

PART IV- RESULTS OF FACTORS AFFECTING TAX AUDIT EFFECTIVENESS

3.4. Questionnaire Result for Liker Scale

A total of 13 copies of questionnaires were sent to tax auditor respondents. From the auditor respondents, 13 usable questionnaires were obtained (100 percent response rate). Descriptive measures of responses are presented in Table 23

Table 23. Descriptive Statistics

		N	Min	Max	Mean	Std .dev
Audit Attribute	AA	13	1.38	4.11	3.031	0.57791
Tax Audit Effectiveness	TAE	13	1.49	4.15	2.811	0.52714
Audit Quality	AQ	13	1.00	4.11	2.524	0.79615
Organizational Indipendency	OI	13	1.47	4.12	2.987	0.69766
Organizational setting	OS	13	1.57	3.87	3.025	0.63899
Top Management Support	TMS	13	1.49	3.79	2.646	0.51115
Valid N(listwise)		13				

Source: SPSS output from scale questionnaire respondent of tax auditors, 2025

3.4.1. Audit attributes

From above table 23 information Auditors mean responses were 3.05 and the standard deviations were 0.57791 the standard deviations (57.77%) for tax auditors suggest that there existed variability in ratings of the respondents. The auditors' mean responses were greater than 2.00 (average) in fifteen of the questions indicating that tax auditors of respondents viewed the auditee as high level of support or contribution for tax

auditors and there is a good relationship between tax payers and auditors.

3.4.2. Tax audit effectiveness

According to the above table 23 indicated that Auditors mean responses for all Questions were 2.81 and the standard deviations were 0.5271.The mean responses to those questions in auditors groups were greater than 2.00 (average) and the standard deviations (52.71%)were indicated for tax auditors suggest that there existed variability in ratings of the respondents.

The questionnaire mean responses revealed that the tax audit effectiveness is medium as might be desired to attain a tax audit department so which indicates that still there is a gap between tax audit.

3.4.3. Audit quality

From above table 23 data indicated that Auditors mean responses for all Questions were 2.52 and the standard deviations were 0.7961. The mean responses of the auditors to the six questions under audit quality were generally agree or strong agree ,the six questions obtained mean responses of greater than 2.00(average) for auditors. The standard deviations of the responses were 79.6%, which indicates that the respondents' perceptions were differing to one another. The mean result implies that there is the audit quality between the tax auditors and they have a sufficient skill for them as well as attractive tax audit plan preparation.

3.4.4. Organizational independence

As shown the above table 23 tells that Auditors mean responses for all Questions were 2.98 and the standard deviations were 0.6976. The mean responses of the auditors to the eleven questions under organizational independence were generally agree or strong agree ,the eleven questions obtained mean responses of greater than 2.00(average) for auditors.

The standard deviations of the responses were 69.7%, it means that value of the organizational independence can deviate from its mean to both sides by 69.76 percent .The majority of respondents mean indicated their agree or strongly agree to the questions provided on the overall organizational independence in the revenue office. The mean responses of the auditors to the questions implying high independency and to those questions which referred to as the tax auditors are free from other influence.

3.4.5. Organizational setting

From above table 23 results of the questionnaires distributed to auditors, indicated a mean response of 3.02 and the standard deviation was 0.6389 The mean responses to all the other questions that would suggest were greater than 2.00(average). These results would suggest that the organizational structure and budget status were more appropriate for audit focus in the tax

audit department. The standard deviations (63.89%) for tax auditors suggest that there existed variability in ratings of the respondents.

3.4.6. Top management support

According to the above table 23 indicated that Auditors mean responses for all Questions were 2.64 and the standard deviations were 0.5111. The mean responses of the auditors to the four questions under top management support were generally agree or strong agree ,the four questions obtained mean responses of greater than 2.00(average) for auditors. The standard deviations of the responses were 51.1%, it means that value of the top management support can deviate from its mean to both sides by 51.1 percent .The majority of respondents mean indicated their agree or strongly agree to the questions provided on the overall management support in the revenue office. The mean responses of the auditors to the questions implying high management support and to those questions which referred to as the tax auditors findings are accepted by management.

3.5. RELIABILITY TESTS OF THE INSTRUMENT

Pilot study (preliminary test) was carried out using convenient sampling method in the B/dar city administration revenue office having the same characteristics with the participants of the main study. The advantage of doing a pilot study include; it helps to detect potential defects in the measurement procedures, it assists in identifying ambiguous items, and it allows the researcher to become aware of non verbal behavior that may occur due to the wording question. Therefore, the researcher tried to insures the reliability and validity of the questionnaire. To measure the reliability of the questionnaire, the researcher applied a preliminary reliability test from 18 tax auditors. According to different statistic book a reliability coefficient exceeding 0.5 for any test or scale was acceptable reliability coefficient. Therefore, as we can see the (cronbach's alpha) indicates that the questionnaire administered in this study, seven items are reliable and the remaining items are highly reliable

Table: 24. reliability analysis

Variables	No. Of items	Cronbach's alpha
Audit attributes	10	0.902
Tax audit effectiveness	7	0.721
Audit quality	5	0.911

Organizational independence	9	0.151
Organizational setting	3	0.525
Top management support	4	0.532

Source: researcher’s computation with SPSS, 2025

From the above table 6, it is seen that the reliability value was estimated to be $\alpha = 0.151- 0.911$ between the scale. If the above calculated reliability values are compared with the standard value alpha of 0.5

advocated by Cronbach’s, then it can be safely assumed that the scales used by the research are reliable for data analysis.

3.6. CORRELATION

Table 26. Correlation

	1	2	3	4	5	6
TAE- Pearson Correlation	1					
Sig. (1-tailed)						
N	13					
AA Pearson Correlation	0.695	1				
Sig. (1-tailed)	0.001					
N	13	13				
AQ Pearson Correlation	0.595	0.298	1			
Sig. (1-tailed)	0.000	0.045				
N	13	13	13			
OI Pearson Correlation	0.811	0.915	0.266	1		
Sig. (1-tailed)	0.001	0.001	0.024			
N	13	13	13	13		
OS Pearson Correlation	0.062	0.154	0.153	0.001	1	
Sig. (1-tailed)	0.241	0.214	0.286	0.477		
N	13	13	13	13	13	
TMS Pearson Correlation	0.254	0.207	0.155	0.181	0.114	1
Sig. (1-tailed)	0.62	0.104	0.321	0.121	0.164	
N	13	13	13	13	13	13

** Correlation is significant at the 0.01 level (1-tailed). Source: SPSS output, 2025

Pearson product moment correlation coefficient (r) was used to determine the strength of relationship between the dependent (TAE) and independent variables (AA, AQ, OI, OS, &TMS). It is a parametric technique which gives a measure of the strength of association between two variables

As it can be shown in the above correlation matrix, each variable is perfectly correlated with itself and so $r=1$ along the diagonal of the table. Tax audit effectiveness is positively and significantly related to

audit attributes with a Pearson correlation coefficient of $r =0.695, p <0.01$, Audit Quality with $r =0.595, p <0.01$, Organizational independence with $r =0.811, p <0.01$, however tax Audit effectiveness is positively and not significantly related to organizational setting with $r =0.062, p > 0.01$, the previous study is also supported that variable is not significantly related to dependent variables (Mihret and Yismaw, 2007) and top management support with $r= 0.254, p > 0.01$ which is positively and not significantly related to it.

3.7. MULTICOLINEARITY

Table: 27 Co linearity statistics

Model	T	Sig	Tolerance	VIF
1 (Constant)	0.811	0.914		
AA	-0.233	0.691	0.101	7.51

AQ	0.329	1.28	0.527	1.55
OI	0.659	2.52	0.192	6.14
OS	0.147	0.717	0.686	1.13
TMS	0348	0.693	0.751	1.92

Source from SPSS data, 2025

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

Another method is to produce a Collinearity diagnostics with the use of SPSS, and one of which is the variance inflating factor (VIF). The VIF indicates whether a predictor has strong linear relationship with

3.8. AUTOCORRELATIONS

the other predictor(s). Although there are no hard and fast rules about what value of the VIF should be a cause for concern, Field (2000) suggests that value of 10 is good value at which to worry. Field (2000), and suggest that if the average VIF is greater than 1, then multicollinearity may be biasing the regression model. Related to the VIF is the tolerance statistics, which is a reciprocal of VIF (1/VIF). Such values below 0.2 are worthy of concern. Considering the regression model for this study correlation matrix of all of the predictor variables less than or equal to 0.80 or 0.90 and the tolerance statistics values are all below 1 (see tables 26 and 27) as such no multicollinearity is observed in this model.

Table: 28 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.845	0.714	0.626	0.28773	2.158

From above table 28 information Autocorrelation is adjacent residuals of any two observations not being independent of each other or correlated. For any two observations the residual terms should be uncorrelated (or independent). This eventually is sometimes described as a lack of autocorrelation. This assumption can be tested with the Durbin-Watson test, which tests for social correlation between errors. Specifically, it tests whether adjacent residuals are uncorrelated. The test statistics for this can vary between 0 and 4 with a value of 2 meaning that the residuals are uncorrelated (Field, 2009). In our model the value of the test is closer to 2 (2.158). So it can be safely assumed that there is no problem of autocorrelation.

research instruments were survey questionnaires developed with censuses and lottery method of applicable constructs. 303 sample of tax payers and 13 population of staff auditors totally 316 copies of questionnaire were distributed to tax auditors and taxpayers of Semera city administration revenue office. However, only 245 copies were found to be returned from tax payers and used for analysis. By using reliability 37 items were tested and which have a good loading value and reliability scale was treated for analysis. Since each construct was affected by other constructs, regression analysis was conducted by the models, using tax audit effectiveness as dependent variables, this was basically done to get the best linear combinations of the constructs as well as to get predictive value of individual predictors for testing the hypotheses proposed. A tax audit is an investigation made by the tax authority in order to verify the accuracy of tax returns and attempt to detect non-compliance behavior and activities. The study applied quantitative approach to describe and evaluate the factors affecting tax audit effectiveness. In the chapter

IV. SUMMARY, CONCLUSION AND RECOMMENDATION

4.1 SUMMARY

The purpose of this study was to examine the factors affecting tax audit effectiveness using statistical analysis; both descriptive and inferential statistics. The

four, the primary data has been analyzed and interpreted in relation with the statement of the problem and objectives of the study. Then in this chapter the major weakness/gaps that affect the effectiveness of the tax audit are presented.

4.2 CONCLUSIONS

The results of the study enable us to conclude that audit quality, organizational setting, organizational independence, auditee attributes as well as top management support as a linear combination significantly influence tax audit effectiveness in the organization studied. However, as individual predictors: organizational setting, auditee attributes and top management support 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 on organizational setting, and auditee attributes are not significant influence on tax audit effectiveness (Mihret and Yismaw, 2007).

The top management support is low in explaining the model of tax audit effectiveness. Organizational independence is a dominant factor in predicting tax audit effectiveness whereas, organizational setting and auditee attributes and audit quality are predicted as medium the outcome. Thus, Organizational independence; in comparison to top management support, organizational setting, auditee attributes, and audit quality is greater influence on tax audit effectiveness.

The results of study demonstrated that perceived adequacy or inadequacy of both organizational independence and audit quality, extends noticeable influence on perception of tax audit effectiveness. The influence of organizational independence on tax audit effectiveness may be attributed to the audit quality. Tax audit effectiveness and their perception come from the independence; tax auditors' positive attitude towards various components and their professional proficiency.

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.

4.3 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, Semera city administration revenue office should consider the following points: As it was explained organizational independence play significant role on tax audit effectiveness; Semera city administration revenue office should emphasis on that predictor, except auditee attributes, organizational setting and top management support. Audit quality has also positive influence on tax audit effectiveness and it is better to consider it.

Make the Semera city administration revenue office independence and audit quality by paying attention to the needs and desires of tax auditor, reducing the corruption, the management attention to audit findings (since they are important assets owned by every organization) to perform their tax audit work effectively and efficiently.

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 Samara city administration revenue office should consider on the convenient tax audit system as well as making brief tax law, policies, rules and regulations in the office.

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