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"FACTORS AFFECTING TAX AUDIT EFFECTIVENESS IN EAST GOJJAM ZONE REVENUE OFFICE IN ETHIOPIA"

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Abstract

The purpose of this study was to determine factors affecting tax audit effectiveness using statistical analysis; both qualitative and quantitative approach (use mixed method). The population of the study includes the entire set of all tax auditors and process owners operated in the East Gojjam Zone Revenue Office. Accordingly, the target population for the study would be 14 tax auditors and 20 process owners of revenue office. The researcher use census method to select respondents form revenue office. A total of 34 copies of questionnaire were distributed to tax auditors and process owners of revenue office and in-depth interviews with tax official were conducted. In addition, secondary data was used and investigated, mainly to show the trend of the last five years from 2002/03 up to2006/07(Ethiopian Calendar). The data was analyzed on qualitative research approach to explore attitudes, behaviors and experiences through methods such as in-depth interview and quantitative basis using Pearson's correlation, linear regression analysis and descriptive statistics. And the finding of this study show the effects of Audi tee Attribute, Organizational Setting, Top management support, Organizational independence, and Audit Quality with tax audit effectiveness on the revenue office. According to the regression output from the total five independent variables, all independent variables except organizational setting are positively correlated and positive contribution with tax audit effectiveness in the revenue office. Organizational setting has a negative influence on tax audit effectiveness. All of these five independent variables are making 81% of the contributions for tax audit effectiveness in the revenue offices.

Key words: *Tax Audit; Revenue office; tax audit effectiveness; factors affecting tax audit effectiveness.*

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Statement of the Problem

A tax audit is one of the most sensitive relation 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 Amhara 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 East Gojjam Zone Revenue Office tax audit performance is low by the following factors:

From the Year 2002/03-2006/07 audit Performance of the revenue office shown that the number of files submitted by the taxpayers are 157,167,383,769 and 1179 and those by audited are 90,115,94,191 and 582 respectively, additionally their performance percentage is 57%, 68%,25%, 25%and 49% respectively. Thus, the researcher can understand that the revenue audit performance is 38%,But, 62% of the files remained unaudited. Therefore, the revenue audit performance coverage is below 40% ,from these revenue audit performance coverage reduced; so the revenue office give one of the problem is a number of auditor in the office is un balance(small) to tax payers files. Under this study focus on the major factors affecting tax audit effectiveness are: -auditee attributes, organizational setting, top management support, Independence of the organization, and audit quality. This study, therefore, considers the above-mentioned variables as independent and it verifies if they are influencing on tax audit effectiveness in East Gojjam Zone revenue office.

The study 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 will answer the question of what are the factors affecting tax audit effectiveness in East Gojjam Zone revenue office. Hence, on the basis of the problem area this study tried to address the following research questions.

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Hence, on the basis of the problem area this study tries to address the following research questions.

- ✓ Does audit attributes for tax auditors influence tax audit effectiveness in the revenue office?
- ✓ Does organizational setting for tax auditors influence tax audit effectiveness in the revenue office?
- ✓ Does the support given by the management to tax auditors enhance the tax audit effectiveness in the revenue office?
- ✓ Does organizational independence of tax auditors affect tax audit effectiveness in the revenue office?
- ✓ Does audit quality of tax auditors' influence for tax audit effectiveness in the revenue offices?
- ✓ Do tax audit selection process and audit techniques enable to identify taxpayers in a high tax risk areas?
- ✓ How is the revenue office tax audit systems and tax audit coverage performance?

Objectives of the Study

General objective

The general objective of this study is to examine factors affecting tax audit effectiveness of the East Gojjam Zone revenue office.

Specific Objectives

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

- ✓ To examine the contributions of audit attributes for tax auditors in the tax audit effectiveness in the revenue office.
- ✓ To examine the contributions of organizational setting for tax audit effectiveness in the revenue office.
- ✓ To examine the contributions of top management support for tax audit effectiveness in the revenue office.
- ✓ To examine the contributions of organizational independence of tax auditors for tax audit effectiveness in the revenue offices.
- ✓ To examine the contributions of audit quality for tax audit effectiveness in the revenue offices.
- ✓ To examine the revenue office's tax audit selection process and audit techniques.

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Hypotheses of the study

Several statements of supposition can be made in view of the factors affecting tax audit effectiveness at East Gojjam Zone Revenue Office's Business Income taxpayers particularly those submitted their book of records and documents. In light of the above research objective the following discussion covers, the hypotheses (HP) this study would be attempted to test.

H 1: Audited attributes for tax auditors in the revenue office has significantly influence tax audit effectiveness.

H2 H 1: organizational setting is significantly influence on the tax audit effectiveness

H3 H1: Top management support is significantly influence on tax audit effectiveness.

H4 H1: organization Independence of has significantly influence to tax audit effectiveness.

H5 H1: Audit quality has significantly influence to the tax audit effectiveness.

Scope of the Study

The spatial scope of the study is limited to East Gojjam Zone Revenue Office. The study focuses on to examine factors affecting tax audit effectiveness of East Gojjam Zone Revenue Office on preparing books of records tax payers. Because of the data that would be handled and manage properly.

Limitations of the study

Shortages of adequate secondary data and the unwillingness of some officials to deliver the required data were some of the limitations of the findings. Shortage of time and absence of research fund were also other restrictive factors of the findings of the study. However, necessary precautions were made so that these limitations is not affect the findings of the study through taking appropriate sample size and triangulating different data collection methods.

REVIEW OF RELATED LITERATURE

According to (Spicer and Pegler ,2008), "Auditing is such an examination of books of accounts and vouchers of business, as will enable the auditors to satisfy himself that the balance sheet is properly drawn up, so as to give a true and fair view of the state of affairs of the business and that the profit and loss account gives true and fair view of the profit/loss for the financial period, according to the best of information and explanation given to him and as shown by the books; and if not, in what respect he is not satisfied.

As (Biber, 2010), Tax audit is extending beyond verifying a taxpayer's reported obligations and detection of discrepancies between a taxpayer's declaration and supporting documentation. Most taxpayer's report their tax liabilities more accurately if they believe that

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the tax administration has the capacity to detect any unreported liabilities and that heavy penalty may be applied when they are detected. (Barreca and Ramachandran, 2004) noted that the purpose of tax audit is to check the evasion of tax and ensure compliance in accordance with the laws and regulations.

Organizational Independence

Independence has no single meaning and interpretation across the people; hence the concept is subject to ambiguity and uncertainty (Wines, 2012). However, for the purpose of the case study independent refers to the concept of being free from any management influence while internal auditors perform audit activities and issue audit report (Ahmad & Taylor, 2009; Belay, 2007; MoFED, 2004). Independence is fundamental to the reliability of auditor's reports. Those reports would not be credible, and investors and creditors would have little confidence in them, if auditors were not independent both in fact and appearance. The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance (Wines, 2012; Stewart and Subramanian, 2010).

(Drogalas George, 2015) studied on factors associated with internal audit effectiveness in the Greek business environment. There is a positive and significant relationship between internal audit effectiveness and independence of internal audit.

(Elias, 2014) studied on factors affecting tax audit effectiveness on category "A" taxpayers at Bahir Dar city administration revenue office. The finding implies that organizational independence also has a positive effect or correlation on tax audit effectiveness. It implies that organizational independence has a positive influence on tax audit effectiveness.

(Shewamen, 2014) the study on internal audit effectiveness; determinantsof internal audit effectiveness; Ethiopian Public sector offices; He founds organizational independence were positively related with the internal audit effectiveness.

(Alagan, 2014) studied on Factors that Contribute to the Effectiveness of Internal Audit in Public Sector in Malaysia .The result indicated that there are significant positive correlation between, independence and internal audit effectiveness.

Independence in fact exists when auditors are actually able to act with objectivity, integrity, impartiality and free from any conflict of interest. While the concept of independence in appearance is the auditor should be perceived by others (the public or other third party) to be independent. In this case, conflict of interest will also exist when a reasonable person, with full knowledge of all relevant facts and circumstances, would conclude that the auditor, or a

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professional member of the audit team, is not capable of exercising objective and impartial judgment in relation to the conduct of the audit of the audited body.

Research Methods

The main objective of this study is to examine the factors affecting tax audit effectiveness in East Gojjam Zone Revenue Office. Hence, the appropriate research method is case study research type. Because it provides to determine the nature of units to be studied 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, enabled to generalize knowledge to get the existing situations of the factors affecting tax audit effectiveness.

Target Population

The population of the study includes the entire set of all tax auditors and process owners operated in the East Gojjam Zone Revenue Office. Accordingly, the target population for the study would be 14 tax auditors and 20 process owners of revenue office. Totally the target population of the study had 34 respondents.

Sampling Frame

The sample frame of thestudy were 34 revenue office staff tax auditors and process owners which the required number of the study has drawn, which is available in the East Gojjam Zone Revenue Office report of June 30,2006/07.

Sampling Unit

The sample unit for this study would be East Gojjam Zone Revenue Office tax auditors and enforce core process owners of tax audit depending on their responsibility and experience in their office.

Sampling Techniques

The researcher used census method to select respondents form revenue office ofEast Gojjam Zone Revenue Office where there were small number of tax auditors and process owners. Therefore, census method is the most reliable sampling techniques especially if the number of population is small. Hence, the target population of tax auditors was small.

Sample Size

East Gojjam Zone Revenue Office had fourteen tax auditors and twenty revenue office process owners totally thirty four respondents were available at the time of data collection. The population of tax auditors and process owners were selected by census since the office had small group of population, then the researcher used the total tax audit officers and

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process owners. Thus in this case the sample size was almost equal to the population which enabled to make appropriate generalization to the overall population.

Source of Data

Primary Data Sources

The main base for this study has been primary data and secondary data that were collected through field work survey in order to get information on the issue of factors affecting tax audit effectiveness through questionnaire. The structured questionnaires comprised of closed ended questions were used to collect data from the respondents.

Secondary Data Sources

Secondary data has been also collected from the Revenue office published working manuals, tax laws and annual report from 2014/15 E.C, number of tax payers registered, number of Audited taxpayers, and number of unaudited taxpayers.

Data Collection Methods

The primary data were used to accomplish the study, and to collect the data from the respondents included in the questionnaires which were distributed. The questionnaires were distributed to the process owners and the tax auditors of the revenue office. But, the questions were different for the process owners and the tax auditors according to their profession and responsibility. The questionnaire for the process owners deals about the effectiveness of the offices tax auditing process, while the questionnaires for the tax auditors were about the independent variables which determined the effectiveness of internal auditors. The questionnaires were adopted and modified from the prior author and literature review (Elias Ayalew, 2014**;** Mihret and Yismaw, 2007; Cohen & Sayag, 2010; Arena and Azzone, 2009), an approach which is recommended in methodological literature for studies of this nature (Bryman and Bell, 2007) and those questionnaires were prepared in the form of Likeret-Scale type (showing respondents agreement or disagreement) by constructing five point scale where the lowest scale represent strongly disagree and the highest scale represent strongly agree (Likert, 1932). The questionnaires distributed to the respondent were organized in to two parts; the first part comprised the demographic question regarding the respondents, and the second part contained items relating to the effectiveness of tax audit and its factors.

Variables used in the Research

Dependent Variable

The dependent variable for this research is the tax audit effectiveness. Here the tax audit effectiveness was measured in terms of tax auditors' ability to identify nonconformity activities with the offices procedures and policies, and the contributions added by tax audit to

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the revenue offices. In this case study the researcher measured the tax audit effectiveness by implementing the tax audit effectiveness of the revenue offices with the country's auditing environment. Therefore, tax audit effectiveness was measured against the perception of revenue office tax auditors. To understand the level of the tax auditors' perception of tax audit effectiveness a 5-scale point Likert-type of 8 different item questionnaires were constructed and distributed to the respondents. The researcher has used the mean score technique for the questions in each factor for each participant. This is because Likert scale is the common mean scores (Balnavesand Caputi, 2001).

Independent Variable

This study focused on five independent variables that might have had an impact on the tax audit effectiveness in the revenue offices. Those predicted variables investigated in this research were: audit attributes of tax audit activity, organizational setting of tax audit activity ,top management support of tax audit activity, organizational independence of tax audit activity ,and audit quality of tax audit activity . It should be noted that the data for the independent variables were collected from the tax auditors of the revenue offices. Therefore, the independent variables represent the perceptions of the tax auditors regarding these concepts. Similarly with the dependent variable items, all of the independent variables items were measured on a five point Likert-scale where the lowest scale represent strongly disagree and the highest scale represent strongly agree (Likert, 1932). As shown in Appendix A of part II, thirty eight different item questions were constructed to identify each of the independent variables. The researcher has used the mean score technique for the questions in each factor for each participant. This was because Likert scale is the common mean scores (Balnavesand Caputi, 2001).

Model Specification:

The model formulated for this research paper in order to test the research hypothesis was set earlier. Most of the independent variables included in the model were extensively used in prior audit researchers (Elias Ayalew, 2014**;** Mihret and Yismaw, 2007; Cohen & Sayag, 2010; Arena and Azzone). Therefore, the reliability and validity of the model were recognized and used in this research paperto analyze and interpretthe result ofthe study Therefore, the model used for this research work was:

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \epsilon i$$

$$TAE = \beta 0 + \beta 1\ (AA) + \beta 2\ (OS) + \beta 3\ (TMS) + \beta 4\ (OIN) + \beta 5\ (AQ) + \epsilon i$$

Where:

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Y= Tax Audit Effectiveness(TAE)

$\beta 0$ = *Constant*

AA = Auditee Attributes

OS = Organizational Setting

T MS =Top Management Support

OIN = Organizational Independence

AQ = Audit quality

$X1 - X5 \rightarrow$ denote the intercept of independent variables

$\epsilon i \rightarrow$ the error term that captures other variable not included in the model that affect the dependent variables

$\beta 0 \rightarrow$ is a constant, represents the effectiveness of TAE when every independent variables are zero.

$\beta 1 - \beta 5 \rightarrow$ Was the coefficient, in which every marginal change in variables on tax auditeffectiveness affects correspondingly? These were coefficient indicating rate of change size of tax auditor in the organization, audit attribute, organizational setting, top management support, Independence of the organization, and audit quality.

A descriptive analysis is used to describe patterns of behavior or relevant aspects of phenomena and detailed information about each variable. Thus, it shows the frequency, mean, and standard deviation of the different variables of interest in the study. A variable can achieved and processed using SPSS V16.0. This study used multiple regression analysis and descriptive statistics to estimate the causal relationships between tax audit effectiveness variable and independent variables.

Measurement of dependent and independent variables

Variable description and expectation

Variables	Description of variables	Measurement	Expected sign
Dependent variable			
TAE	Tax Audit Effectiveness	Scale	
Independent Variable			
AA	Auditee Attributes	Scale	+
OS	Organizational Setting	Scale	+
T MS	Top Management Support	Scale	+
OIN	Organizational Independence	Scale	+
AQ	Audit quality	Scale	+

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Descriptive statistics for process owners in the revenue offices respondents

Response Rate

The questionnaires were distributed to East Gojiam Zone Revenue Office process owner staffs. For these, 20 questionnaires are distributed to tax process owner officials and the whole questionnaires are collected. The response rates are 100%. This shows that very good response rate of process owners.

Table-1process owners' profiles

1. What is your Level of education?	Frequency	Percent
Degree	19	95.0
Master	1	5.0
Total	20	100.0
2. What is your field of study?	Frequency	Percent
Accounting	8	40.0
Management	10	50.0
Economics	2	10.0
Total	20	100.0
3. How long have you been working in this office?	Frequency	Percent
Above 5 years	20	100.0
4. The objective of the tax Audit function is efficiently explained.	Frequency	Percent
Yes	20	100.0
5. Tax audit plays a significant role in evaluating controls and advising revenue office officials.	Frequency	Percent
Yes	20	100.0
6. In revenue office tax audit ensures activity performed is compliance with established policies, procedures, laws and regulations.	Frequency	Percent
yes	20	100.0
7. Effectiveness of tax audit is measured by volume of the audit performed.	Frequency	Percent
Yes	16	80.0
No	4	20.0
Total	20	100.0
8. The number of tax auditors small in the office has an impact on the coverage tax audit performance.	Frequency	Percent
Yes	20	20.0
9. The number of auditors as branch revenue office is not proportional with tax payers who provide book of records to tax office.	Frequency	Percent
Yes	20	100.0

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10 Know a days the revenue office audit coverage performance is increasing to year to year.	Frequency	Percent
yes	4	20.0
No	16	80.0
Total	20	100.0
11. For decision making, recommendations and information provided by tax auditors are used.	Frequency	Percent
yes	20	100.0
12. The audit report was obviously written, precise, brief, and provided suitable viewpoint.	Frequency	Percent
Yes	20	100.0

Source: SPSS output from process owners staff respondents, 2016

From the above Table-1provided a profile of respondents who involved in the study and data collected on basic characteristics. Accordingly, the following variables about the respondents were summarized and described in the following.

Following the views of respondents on evaluation rating of determinants of tax audit function, the researcher approached processes owners to assess the level of effectiveness of tax audit function.

The above Table-1indicates that the respondents (100%) of process owners accept the objective of the tax audit function is efficiently explained. Therefore, the revenue office tax audit department audit functions were clearly and efficiently stated.

The above Table-1showed that all of the respondents(100%) tend to accept that tax audit plays a significant role in evaluating controls and advising revenue office officials by preparing reports, giving current comments there working activities. As 100 percent of survey respondents showed, in revenue office tax audit ensures activity performed is compliance with established policies, procedures, laws and regulations. Therefore, any of tax audit activity practice or implemented with established policies, procedures, laws and regulation.

As Table-1indicated that the majority of the respondents (80%) agreed that the Effectiveness of tax audit is measured by volume of the audit performed. On the other hand 20% of the respondents did not agree on the same statement. The result indicated that effectiveness of tax audit may be measured by the volume (number) of files audited from the planned has one of the indicator of effective tax audit. The in-depth interview with head of revenue office of also replied that tax audit measured by the volume (number) of files audited performed and productivity yield of audited. The researcher concluded that tax audit measured by volume (number) of files audited performed and productivity yield of audited.

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Reliability Analysis

To measure the consistency of the questionnaire mainly the Likert-type scale the reliability analysis is essential in reflecting the overall reliability measuring. To carry out the reliability analysis, Cronbach's Alpha (α) is the most common measure of scale reliability and a value greater than 0.700 is very acceptable (Field, 2009; Cohen and Sayag, 2010) and according to Cronbach's (1951), a reliability value (α) greater than 0.600 is also acceptable.

Table -2 Reliability Statistics

		Cronbach's Alpha	N of Items
1	Tax Audit Effectiveness	.762	8
2	Audi tee Attribute	.798	15
3	Organizational Setting	.842	3
4	Top management support	.784	4
5	Organizational Independence	.915	11
6	Audit Quality	.732	5

Source: SPSS output of variables, 2016

From Table-2above, the value for Cronbach's Alpha (α) was for all variables were highly reliable compared with Cronbach's Alpha (α.) minimum value. Therefore, the responses generated for all of the variables' used in this research were reliable for data analysis

All of the respondents(100%) process owners agreed thatin the revenue office there are fourteen(14) tax auditors and one thousand one hundred seventy nine(1179) tax payers who provide book of records to tax audits. The revenue offices have huge number of tax payers compared with tax auditors. Therefore, number of auditors as branch revenue office is not proportional with tax payers who provide book of records to tax office. The researcher concluded that East Gojiam Zone Revenue Office tax auditors and tax payers are not proportional.

As Table-1indicated that the majority of the respondents (80%) disagreed that the revenue office audits coverage performance has not been increasing year to year. On the other hand 20% of the respondents agreed on the same statement. The current audit coverage performance indicated that 57%, 68%,, 25%,25%, and 49%. Therefore, the researcher concluded that East Gojiam Zone Revenue Office the current audit coverage performance has not an increasing trend.

In the above Table-1indicates that all respondents100% agreed that tax audit report was clearly written, precise, brief, and provided suitable viewpoint. And the revenue office officials used tax audit reports for decision making, recommendations and information.

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Normality Test

Distribution of the data was another issue in this research, whether it was normal/or not. To check the distribution of score normality, we need to look at the values of skewness in the SPSS output. Positive value of skewness indicated too many low scores in the distribution, where as negative values indicated a build-up of high scores (Field, 2009). Skewness measures the degree to which cases are clustered towards one end of an asymmetry distribution. In general, the further the value of skewness is from zero, the more likely it is that the data are not normally distributed (Field, 2009). In a normal distribution, the values of skewness are 0. If a distribution has values of skew above or below 0 then this indicates a deviation from normal (Field, 2009). As we have seen from the following Table-3, the skewness near to Zero. All variables were normal.

Table-3Tests of Normality Tax audit effectiveness

	N	Skewness	
		Statistic	Std. Error
Audi tee Attribute	14	.000	.597
Organizational Setting	14	-.123	.597
Top management support	14	-.161	.597
Organizational Independence	14	.004	.597
Audit Quality	14	.000	.597
Valid N (list wise)	14		

Source: SPSS output of independent variables skewness, 2016

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

Table 4 Model Summary[b]

R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
			R Square Change	F Change	df1	df2	Sig. F Change	
.810	.764	.285	.810	17.753	5	8	.000	1.895

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Source: SPSS output of variables,2016

a. Predictors: (Constant), Audi tee Attribute, Organizational Setting ,Top management support, Organizational Independence , Audit Quality

b. Dependent Variable: Tax Audit Effectiveness

As Table 4 shows that R-Squared statistics and adjusted R-squared statistics of the model is 81%, and 76.40% respectively. This result indicates that R Square value for the model showed that 81% of the dependent variable in the model can be predicted by the independent variables. The remaining 19% of the dependent variable is explained by other variables which are not included in the model. Moreover, adjusted R square values for the model shows that 76.40% of goodness of fit of the model. This suggests that all the explanatory variables are collectively good in explaining tax audit effectiveness.

Hypothesis Test

The regression analysis whose results are presented in above model provides a more comprehensive and accurate examination of the research hypothesis. Therefore, the regression results obtained from the model were utilized to test these hypotheses. The hypotheses indicated to test for a significant influence of audit attribute (AA), organizational setting (OS), top management support (TMS), organizational independence (OIN), and audit quality (AQ). From the above table 4.12 the p value for the, AA, OS, TMS, OIN and AQ are statistically significant at ($p< 0.05$) which suggests a strong support for hypothesis 1, 2, 3, 4 and 5. The following hypotheses test were conducted based on the regression results of the tax audit effectiveness obtained from the regression output.

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H1: 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 goals; their attitude towards tax audit; and the level of cooperation provided to the auditor. Based on the regression indicated that audit attribute (AA), is positively related with tax audit effectiveness. In addition strong correlated relationship, and a statistically significant with the tax audit effectiveness ($\beta = 0.467$, $P<0.05$) .On the other hand the study indicated that there are significant positive correlation between auditee attribute and audit effectiveness (Alagan, 2014; Shewamen, 2014; and Mihret and Yismaw, 2007) was supported. This implies that audit attribute (AA), has a positive influence on tax audit effectiveness.

H2: Organizational setting refers to the organizational profile, internal organization and budgetary status of the tax audit office; and also the organizational policies and procedures that guide operation of auditees. It provides the context in which tax audit operates. Thus, organizational setting can exert influence on the level of effectiveness that tax audit could achieve. Based on the regression analysis of the above model, the organizational setting (OS) also has a positive effect or correlation on tax audit effectiveness ($\beta = -0.513$, $p<0.05$). Hence, hypothesis 2; but negative beta sign indicates that there was an inverse relationship between organizational setting and tax audit effectiveness. Therefore,, hypothesis 2 was not supported . The previous literature was presented significant relationship between organizational setting and audit effectiveness (Elias, 2014 and Mihret and Yismaw, 2007).On the other hand the study indicated that negativeinfluence organizational setting between and audit effectiveness (Alagan, 2014).was supported. Therefore, organizational setting has a negative influence on tax audit effectiveness.

H3: Top management support (TMS) for tax audit was measured by a number of indicators, these being: involvement in the tax audit plan, providing management with reports about the work the tax audit team performs, the management's response to tax audit reports, the resources of the tax audit department. The regression analysis implies that positive beta sign ($\beta = 0.042$, $p<0.05$). It implies that there was a positive influence on tax audit effectiveness. Which is positively and significantly related? Hence, hypothesis 3 was supported .The previous study supported that positive influence and significant related to tax audit effectiveness (Drogalas George, 2015; Elias Ayalew, 2014; and King Abdulaziz, 2014).

H4 :Organizational independence of the tax audit department was measured by eleven items, these being: the level of independence, reporting level, direct contact to the officials and management, conflict of interest, interference, unrestricted access to all departments and employees, appointment, and performing non-audit activity.

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Based on the regression analysis implied that organizational independence (OIN), is positively related with tax audit effectiveness. In addition strong correlated relationship, positive beta sign and a statistically significant with the tax audit effectiveness ($\beta = 0.245$, $P<0.05$) .Hence, hypothesis 4 was supported. Previous study supported that a positive and significant relationship between audit effectiveness and organizational independence (Alagan , 2014; Elias Ayalew,2014; and Shewamen ,2014).

H5: audit quality (AQ), 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 internal audits. Based on the regression indicated that audit quality (AQ), is positively related with tax audit effectiveness. In addition strong correlated relationship, positive beta sign and a statistically significant with the tax audit effectiveness ($\beta = 0.518$, $P<0.05$).Hence, hypothesis 5 was supported. The previous study has presented audit quality is a positive and significant association between audit quality and tax audit effectiveness (DrogalasGeorge, 2015; Alagan, 2014; and Elias Ayalew, 2014).

Summary of Major Finding

According to the regression output from the total five independent variables, all independent variables are positively correlated and four independent variables havepositive contribution with tax audit effectiveness in the revenue office. But organizational setting is a negative influence on tax audit effectiveness. Therefore, the revenue office should give emphasis to use these factors to make their service delivery effective, efficient and economical throughout their offices. In addition audit attribute, top management support, organizational independence, and audit quality were the major factors of tax audit effectiveness in the revenue office. However, organizational setting tax audit was not positive contribution for tax audit effectiveness in the revenue office.

This study finds that the composite measure of, auditee attributes, organizational setting, top management support, independence of the organization, and audit quality for R Square value for the model showed that 81% of the dependent variable in the model can be predicted by the independent variables. The remaining 19% of the dependent variable is explained by other variables not included in the model. Moreover, adjusted R square values for the model shows that 76.40% of goodness of fit of the model. This suggests that all the explanatory variables are collectively good in explaining tax audit effectiveness.

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The final portion of this research aims to conclude the finding of the study focusing factors affecting on tax audit effectiveness and to provide recommendations based on the research findings of the study. These conclusions and recommendations are drawn from the findings of the study specifically related audit attribute, organizational setting, top management support, organization independence, and audit quality in the revenue office.

5.2 Conclusion

Well-structured tax audit program is vital to ensure the fiscal health of the country, and sustain the health of the tax system by reducing tax gap through voluntary compliance improvement and additional tax collections. Further, it might provide valuable support in identifying areas of the tax law that require clarification or addressing deficiencies in the law, and to influence compliance across the broader taxpayer community at all levels. This paper has attempted to analyze factors affecting tax audit effectiveness in East Gojjam Zone revenue office. In particular, the study explored effectiveness of tax audit and functions like types of Tax Audit performed, and risk identification criteria for case selection. These investigations were addressed by employing survey questionnaires, semi structured and structured interview given to tax officials and reviewing published and unpublished documents. And also both methods are usedin the data analysis. Finally, by testing of the proposed hypotheses showed relations of these independent variables with the TAE the following conclusions were drawn.

East Gojjam Zone revenue office audit staffs have not satisfied with their current salary.

East Gojjam Zone revenue office audit department used intensively comprehensive audit and the Audit program is unchanged and not used different types of audit in relation to simplicity and complexity of cases.

Government officials are not consistent support for tax administration particularly in tax audit.

East Gojiam Zone the revenue office tax auditors are small in number compared to tax payers who provide book of records to tax audits.

And one thousand one hundred seventy nine (1179) tax payers who provide book of records to tax audits. The revenue offices have huge number of tax payers compared with tax auditors. Therefore, number of auditors as branch revenue office is not proportional with tax payers who provide book of records to tax office.

And the revenue office officials used tax audit reports for decision making, recommendations and information.

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The efficiency and effectiveness of a revenue body's audit activities depends on the nature and scope of powers in the underlying legal framework in place, including the provision of adequate powers for obtaining information and an appropriate regime of sanctions to deter and penalize non-compliance.

The current audit coverage performance indicates that 57%, 68%, 25%, 25%, and 49%. Therefore, the researcher concludes that East Gojiam Zone Revenue Office the current audit coverage performance has not an increasing trend.

Based on regression output total five independent variable are; Audit attribute (AA), organizational setting (OS),Top management support (TMS),Organizational independence and Audit quality (AQ), all independent variables are positively correlated. In addition four independent variables are statistically significant and positive contribution with tax audit effectiveness in the revenue office. But organizational setting has statistically significant and negative influence on tax audit effectiveness.

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

Recommendation

East Gojjam Zone revenue office should give compensation audit staffs salary to satisfied auditors, to attracted workers with their profession and to handle experienced auditors to increase audit coverage performance, controlled risk activities for tax payers and increase work efficiency and effectiveness.

Government officials are give more attention for tax audit department by respecting tax laws and procedure to create loyal, lawful and voluntary tax payers to increase government revenue.

East Gojiam Zone Revenue Office should have give more attention to tax audit department by hire experienced tax auditors to increase the number of auditors to balance the tax payers and their audit staffs to cover all tax payers books of records, to achieve the revenue office planned activities, increase audit performance coverage ,and increase efficiency and effectiveness.

East Gojiam Zone Revenue Office should adopt different ranges of audit types to increase the audit coverage and voluntary compliance having inadequate staff resources; the East Gojiam

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Zone Revenue Office should adopt a wide range of audit methodologies rather than use of full comprehensive audit because to address risk and audit quality.

East Gojiam Zone Revenue Office should design pre audit procedure to select highly risky business. In addition to pre-auditing revenue office should be display better detecting fraud techniques like, analytical review, investigative approach, field examination, record examination, and counterpart examination to improve tax audit effectiveness in the office and minimize fraud.

East Gojiam Zone Revenue Office should use other types of tax audit like ,risk based audit, desk audit or verification, field audit, registration check, advisory audit, record keeping audit, refund audit, issue-oriented audit, and fraud investigation to efficiently and effectively focus the nature, timing, and extent of audit procedure to those areas that have the most potential for causing material misstatement in the financial report achieved by a more various mix of audit types to increasing the number of audit coverage to get more additional tax revenue, reduces time consuming, and minimizing non compliance activity.

East Gojiam Zone Revenue Office should give emphasis to create their service delivery effective, efficient and economical throughout their offices. In addition audit attribute, top management support, organizational independence, and audit quality were the major factors of tax audit effectiveness in the revenue office. However, organizational setting was not positive contribution for tax audit effectiveness in the revenue office.

East Gojiam Zone Revenue Office should pay attention to the needs and desires of tax auditor, improve the level of independence, reporting level, direct contact to the officials and management, conflict of interest, interference, unrestricted access to all departments and employees, appointment, and performing non-audit activity; East Gojiam Zone Revenue Office management give attention to tax audit plan, providing management with reports about the work the tax audit team performs, the management's response to tax audit reports, the resources of the tax audit department to perform their tax audit work effectively and efficiently.

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