

**EFFECT OF TAX AUDIT ON TAX REVENUE COLLECTION IN KELLEME
WOLLEGA ZONE REVENUE OFFICE**



DAMBI DOLLO UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

***A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND
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Declaration

I hereby declare that this Master Thesis entitled “**Effects of Tax Audit on Tax Revenue Collection in Kellem Wollega Zone Revenue Office**” is my original work. That is, it has not been submitted for the award of any academic degree, diploma or certificate in any other university. All sources of materials that are used for this thesis have been duly acknowledged through citation.

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Recommendation

I, the advisor of this thesis, hereby certify that I have read the revised version of the thesis entitled “**Effects of Tax Audit on Tax Revenue Collection in Kellem Wollega Zone Revenue Office**” prepared under our guidance by Bacha Mitiku submitted in partial fulfillment of the requirements for the degree of Master’s of Science in Accounting and Finance. Therefore, I recommend the submission of the thesis to the department following the applicable procedures.

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APPROVAL SHEET

As member of the Board of Examiners of the final thesis open defense, we Certify that we have read and evaluated the thesis prepared by Bacha Mitiku under the title **“Effects of Tax Audit on Tax Revenue Collection in Kellem Wollega Zone Revenue Office”** recommend that the thesis is accepted as fulfilling thesis requirement for the Degree of MSc in Accounting and Finance.

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LIST OF ACRONYMS AND ABBREVIATIONS

AC	Audit Case Selection
CA	Capacity of the Auditors
CLRM	Classical Linear Regression Model
ERCA	Ethiopian Revenues and Customs Authority
GDP	Gross Domestic Production
IMF	International Monetary Fund
KWZ	Kellem Wollega Zone
OECD	Organization for Economic Cooperation and Development
OLS	Ordinary Least Square
ORO	Oromia Revenue Office
RC	Revenue Collection
RP	Revenue Protection System
SIGTAS	Standard Integrated Government Tax Administration System
SPSS	Statistical Package for Social Sciences
TA	Tax Automation
TOT	Turn Over Tax
TR	Tax Audit Resource
UNDP	United Nation Development Project
VAT	Value Added Tax
VIF	Variance Inflation Factor
WHT	Withholding Tax

ABSTRACT

A tax audit is a process by which tax authorities review and verify the accuracy and completeness of an individual's or organization's tax returns. Thus, the objective of the study was to examine the effect of tax control on the collection of tax revenue in the revenue office of Kellem Wollega area. To achieve these objectives, primary and secondary data were collected. Primary data was collected using a structured questionnaire. While secondary data was collected from various published and unpublished documents of Kellem Wollega Zone revenue office. Descriptive and inferential methods were used to analyze the collected data through multiple linear regression models using SPSS Version 20 application software. The results of the study reveal that the revenue protection system, auditors' capacity, and tax audit resource has positive and significant effect on revenue collection and statically significant at the significance levels of 1%, 1%, and 5% respectively. Furthermore, both audit case selection and tax automation also has positive and significant at significance level of 10%. From the results of the study, the researcher concluded that the revenue protection system, auditor capacity, tax audit sources and selection of audit cases are the important tax audit variables that affect the performance of revenue collection in the Kellem Wollega Zone Revenue Area Office. Finally, the study recommends that the management of the Kellem Wollega Zone Revenue Office should increase the number and improve the overall resource capacity of the audit staff to achieve the required audit rate and audit quality that can improve the overall revenue collection performance of the Kellem Wollega Zone Revenue office. Again, the management of the Kellem Wollega Zone Revenue Office is expected to improve the overall revenue protection system by introducing various types of technologies such as the expansion of the Government Integrated Tax Administration System (SIGTAS), cash registers, the use of electronic tax payment systems, raise awareness and promote the system to enhance the revenue collection performance of the Kellem Wollega Zone revenue office.

Key Words: *Audit case selection, Revenue collection, Revenue protection system, Tax automation, Kellem Wollega Zone Revenue Collection Office*

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Tax is everywhere where societies are there. Since, tax is internationally recognized as the source of revenue for the government whether the country is developed or not; thus it is better and mandatory for accountants to know international as well as national tax treatment. The money received from social security payments, payroll taxes, taxes on the ownership and transfer of property, taxes on income and profits, and taxes on goods and services is known as tax revenue. The percentage of a nation's output that is collected by taxes is shown by the total tax revenue as a percentage of GDP. Our nation's tax income to GDP ratio is extremely low, suggesting that Ethiopia's domestic resource mobilization through taxes is still in its infancy. The amount of revenue that the government generates and uses to fund public infrastructure for the benefit of its citizens determines how developed a country is. Without sufficient funding for the construction of infrastructure, the supply of electricity, and public utilities and services, no economy can expand. Any attempt to improve a country must include taxes and tax systems, especially in emerging or transitional countries (Mckerchar and Evans, 2019).

Spending programs in developing countries have been shown to be hampered by low tax revenues (Tanzi, 2010). In this regard, a number of researchers have agreed on the importance of a good tax system in achieving government objectives. For example, according to Azubike (2019) and Okezie (2003), a good tax system (which includes tax control) is an opportunity for the government to raise the additional revenue needed to meet its current obligations and play a key role in the economic development process of any nation.

A tax audit involves examining basic records to determine whether a taxpayer has properly reported their tax liabilities. Tax audits are more detailed and in-depth than other types of examinations, such as office examinations, compliance monitoring/reviews. Therefore, there are four types of tax audits: mail, office, field, and a Taxpayer Compliance Measurement Program (TCMP). In addition, tax audits include examining the taxpayer's business records and financial

affairs to ensure that the taxpayer has calculated their tax liability in accordance with applicable tax laws and regulations (Isa and Pope, 2021).

Specifically, to discuss this issue in the context of our country which means (The effect of tax audit on revenue collection), in the past 2021/2022 fiscal year Ethiopia's tax revenue hit 336.71 billion birr (about 6.43 billion U.S. dollars) this showed an increase of 20.59 percent compared to the previous fiscal year. As per Ethiopian Minister of revenues reports 3.75 billion U.S. dollars were from domestic taxes, while 2.68 billion U.S. dollars were collected from customs revenue. Xinhua report July 19, 2022.

According to Shumetie (2019), there are a number of reasons in Ethiopia which leads to Revenue Collection in danger position because of the improper tax audit. The reasons and problems were highlighted by the author for improper tax audit was; the case selection is not based on the availability of resource for tax audit, tax payers were not co-operated to give their source documents, do not respect the tax law, lack of good awareness on tax, not happy while they are noticed to be audited and taxpayers are mostly unwilling to release vital records.

Over the past decade, Ethiopia, mainly the Oromia region, has made encouraging progress in tax revenue collection. However, increasing tax revenue relative to GDP remains challenging; the tax/GDP ratio remains low, much lower than that of sub-Saharan African countries. Although the economy has grown strongly, averaging over 10 percent, the slow growth in the tax-to-GDP ratio suggests that tax revenue growth has not kept pace with economic growth, perhaps indicating a large untaxed potential due to a low tax base.

According to the reports of UNDP (2016) and Teshome (2017) in the financial year of 2017-18 regional tax revenue to GDP is less than 2 per cent relative to 11.3 per cent of country's tax revenue to GDP. Hence, this type of tax performance is confirmed that the revenue authority in Oromia region of Ethiopia mainly Kellem Wollega Zone assemble inadequate amount of tax from the taxpayers.

The fundamental rules similar to tax proclamations were made by the regional council; practiced by the judiciary and executive authorities on tax issues condoned from the powers of the central state. As it granted legitimate personality, the region had the power to make relations and harmony with several domestic and limited international organizations. The Oromia regional state

constitutionally separated into three. The initial administrative body of the region represented regional budgetary and general audit office; regional council and other sovereign agencies. Subsequently, Oromia region administration disclosed twenty zone administrations with independent and legitimate powers. Increasingly, the regional administrative segment recognized about 180 district administrations. The two basic factors of a fiscal scheme of Oromia region are Bureau of Finance and Economic Development and Oromia Revenue Office. So, the Bureau of Finance and Economic Development (BoFED) formed by decree no.7-1992. Conversely, the Oromia Revenue office (ORO) was created by regional proclamation no.175-2021 so as to manage tax revenue and other financial resources of the regional government. Thus, the Oromia region is alienated into districts, village areas, city administrations and zones, whereby zones and districts are treated as backbone of state with notable duties of giving essential public goods and services. The revenue offices had a vast number of segments across a region. Therefore, this study focused on the effect of tax audit on revenue collection in Oromia regional state; by selecting the case study of Kellem Wollega Zone tax revenue office.

1.2. Statement of the Problem

Taxes are the main source of government revenue and therefore, the relevant ministry or official must ensure that they are collected properly. To achieve this, a well-designed and well-administered tax system benefits both developed and developing countries by increasing national tax revenues. However, the system must be simple and the administrative procedures transparent (Tanzi, 2010). Due to insufficient tax administration of control programs, the potential amount of tax revenue in developing and transition countries is not collected efficiently and equitably (Edmiston, 2016). Furthermore, weak tax administration can make the tax system unfair, so that law-abiding taxpayers bear higher taxes and an inappropriate tax burden. Thus, taxpayer compliance is in turn a form of illegal economy; to avoid this, it is mandatory to carry out an effective tax audit.

Tax audit is an activity or group of activities carried out by tax auditors to determine the correct tax obligations of taxpayers for a given accounting or fiscal period, examining the procedures and financial data of a tax paying organization to assess compliance with tax laws and to verify the truthfulness, fairness, reliability and accuracy of tax returns and financial statements (ERCA, 2010). Thus, tax audit becomes a bridge that is believed to connect taxpayers with the tax authority.

And it could also fill the gap by exposing tax evaders and teaching those that have a knowledge gap on the tax laws. Hence, the existence of efficient and effective tax audit structures within a tax authority could guarantee optimum tax collection and increased societal awareness towards the existing tax laws.

To achieve these prerequisite, a tax audit should be achieved by highly-skilled, well-informed and committed auditors. However, as noted by Ebrill (2001), quite a lot of developing countries do not yet have effective audit programs due to: insufficient numbers of the required qualified and appropriately paid audit consultants, absence of a sound institutional audit practices, illegal cooperation between taxpayers and auditors, lack of clear political support for the tax administration, and the deficiency of an appropriate legal and judicial environment; this in return affects revenue collection.

Similarly, in Ethiopia, many other studies have been conducted on tax collection practices and tax control from different perspectives. For example, Gebeyehu (2018) studied the practice of tax control and its importance in increasing revenue in Ethiopia; in the case of the Addis Ababa city administration, Mihret (2021) studied the practice of tax control in Ethiopia; In the case of the federal government, Abera (2016) studied the factors affecting the effectiveness of tax audit, evidence from the Large Taxpayers Office of the Ethiopian Revenue and Customs Authority (based on auditors' perceptions) and Shumatie (2019) studied the perception of tax audit practices, evidence from the Large Taxpayers Office of the Ethiopian Revenue and Customs Authority.

However, all researchers justified their findings and extended the consideration to tax audit even though they did not integrate the relationship between revenue collection and tax audit. Similarly, many researches and studies are carried out in different countries, but there are economic and cultural differences related to our country and its research area, making it difficult to measure the impact of tax control on revenue collection based on previous research.

Therefore, considering the above research gap, this study has filled the gap in terms of variables considered in the study and it is also believed that such a study focuses on the effects of tax control on revenue collection by taking an empirical study of the Kellem Wollega area tax office. Furthermore, not all studies are able to consider the impact of tax control on revenue collection and since researchers do not know the impact, it has not been done to assess the problems of tax control with such variables and aspects as income growth, capacity building. of tax administration,

challenges in tax audit implementation in Kellem Wollega Revenue Office, capacity of tax auditors and operation of tax audit at the area administration level. This indicates that there is a research gap on the topic of the effect of tax audit on revenue collection in the context of Kellem Wollega area, Oromia, Ethiopia.

Thus, to the knowledge of the researcher, no research has been conducted on the effect of tax control on tax revenue collection in any of the woredas as well as in Kellem Wollega zone. Therefore, this study was designed to analyze the effect of tax control on tax revenue collection in Kellem Wollega Zone Revenue Office by drawing evidence from all districts in Kellem Wollega Zone.

1.3. Research questions

- What are the impacts of revenue preservation systems on revenue collection in Kellem Wollega Zone revenue office?
- What is the influence of Tax Auditors technique on revenue collection in Kellem Wollega Zone revenue office?
- What are the consequences of resources' tax audit on collecting revenue in Kellem Wollega Zone revenue office?
- What is the impact of audit case selection on revenue collection Kellem Wollega Zone revenue offices?
- What is the effect of tax automation on revenue collection in Kellem Wollega Zone revenue offices?

1.4. Objectives of the Study

1.4.1. General Objective

The general objective of this study was to examine the effect of tax audit on tax revenue collection in Kellem Wollega Zone Revenue Office.

1.4.2. Specific Objectives

The specific objectives of this study were:

- ✓ To assess the effect of revenue preservation system on revenue collection in Kellem Wollega Zone revenue office.

- ✓ To analyze the effect of Tax Auditors technique on revenue collection in Kellem Wollega Zone revenue office.
- ✓ To examine the effect of resources tax audit on collecting revenue in Kellem Wollega Zone revenue office
- ✓ To assess the effect of audit case selection on revenue collection Kellem Wollega Zone revenue offices.
- ✓ To examine the effect of tax automation on revenue collection in Kellem Wollega Zone revenue offices.

1.5. Research hypothesis

Based on the sufficient and appropriate empirical data and researchers past empirical studies on the effect of tax audit on revenue collection, the researcher establishes expectations for the relationship between dependent variables and independent variables. Hence, the study was seeks to test the following hypotheses based on the benchmarks of previous studies. Accordingly, this study tested the following null hypothesis (H_0) with alternative hypothesis (H_1).

H₀₁: Revenue protection (preservation) system has no significant impact on collecting revenue.

H₁: Revenue protection (preservation) system has a significant impact on collecting revenue.

H₀₂: Tax Auditors technique has no significant impact on collecting revenue.

H₂: Tax Auditors technique has significant impact on collecting revenue.

H₀₃: Resources' tax audit has no significant impact on collecting revenue.

H₃: Resources' tax audit has significant impact on collecting revenue.

H₀₄: Audit case selection has no significant impact on collecting revenue.

H₄: Audit case selection has significant impact on collecting revenue.

H₀₅: Tax automation has no significant impact on collecting revenue.

H₅: Tax automation has significant impact on collecting revenue.

1.6. Significance of the study

The empirical finding of this study will be important in many ways. Mainly this study is important to the researcher for partial fulfillment of the requirements for the award of Master of Science Degree in Accounting and Finance. As well, it will provide crucial information for implementing tax audit system by revealing the major factors of tax audit system and its effect on the tax revenue collection offices in Kellem Wollega Zone and finally it will give a possible recommendation and suggestion to the tax revenue collection offices based on the identified findings of the study as a solution. Furthermore, the study will support document for the study area to realize the need to equip its staff, educate and motivate them effectively for efficient working attitude.

In addition to above stated significance, the study will also help the researchers and academicians to undertake further study for future on the area of Tax audit and revenue collection by taking the study as a reference frame and baseline to fill the existing the study's research gap, and development of the governments tax revenue collection. Besides, this study will help the tax revenue collection offices found in Kellem Wollega Zone to achieve its stated objectives, and in the long run it will increase the reliability and sustainability of the office.

1.7. Scope of the study

Even though, the matter of tax audit is comprehensive and it incorporates a range of topics need investigation at federal and regional levels; it is also more useful to investigate the concern at zone level. Hence, the study focused strictly on Effect of tax audit on revenue collection in case of Kellem Wollega Zone revenue office. Related with data available the study used 6 years (2018 – 2023) fiscal gap due to most woredas in the zone are established in recent years and has their own tax auditors starting from 2018 G.C (i.e, only for the past six years). This study also limited to address the impact of tax audit on collecting revenue; five major variables were selected (i.e, Revenue preservation, tax auditors' technique, tax audit resource, tax automation, finally case of audit selection).

1.8. Limitation of the Study

This study tried to examine the Effect of tax audit on revenue collection practices in case of Kellem Wollega Zone Revenue Office. However, it would not be likely to say the paper would be free of limitation, that the researcher was faced many problems which hinder the successful completion of the study. The limitations were lack of well-organized and reliable secondary data

because; this study was the first study on tax audit on revenue collection in the study area. The study also based on a test of five independent variables namely; Revenue preservation, tax auditors' technique, tax audit resource, tax automation, finally case of audit selection. In addition, there is lack of knowledge on the side of respondents about the research, some were not interested to give full evidence; respondents also need benefit from the researcher.

1.9. Organization of the Study

This research paper was organized in to five chapters. The first chapter constitutes an introduction which generally deals with background of the study, statement of the problem, research questions, objectives of the study, significance of the study, scope of the study, and organizations of the study. The second chapter mainly deals with the concepts of tax audit; tax revenue collection and review of related literatures. The third chapter discusses on research methodology with research approach, data type and sources, method of data collection and sampling, sampling procedure, sample size and method of data analysis. Fourth chapter deals about results along with discussions, and finally chapter five is all about conclusion and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Introduction

Under this chapter, the related literatures reviewed were presented starting with theoretical literature review as first section. At the second section of this chapter the empirical studies that were done in the similar context with the topic of current study were reviewed in advance regarding international, continental, national as well as regional levels were incorporated under this section. Under the third section, the identified research gap was discussed by comparing previous studies with current studies were presented. Finally, at the last section of this chapter by having clear insights about the relationships between dependent and independent variables, the conceptual framework of study had developed by the researcher and illustrated diagrammatically.

2.2. Theoretical Literature Review

2.2.1. What Tax Audit is?

"Money that you have to pay to the government so that it can pay for public services" is what Hornby (2010) defines as a tax. "An official examination of business and financial records to see that they are true and correct" is another definition he gave. According to the Association of Chartered Certified Accountants (2019), an audit is an objective, independent process that gives a company's shareholders and other stakeholders' confidence in its financial statements. Governments utilize tax audits as a crucial instrument to improve revenue collection and guarantee adherence to tax rules and regulations. The process by which the tax authorities look into and confirm the laws and regulations in tax compliance to enhance revenue collection is impartial.

Tax audits are an important tool used by governments to ensure compliance with tax laws and regulations and to enhance revenue collection. A tax audit is a process through which the tax authorities examine and verify the accuracy and completeness of an individual or organization's tax returns. The audit process often involves reviewing financial records, conducting interviews, and investigating potential fraud or errors. The impact of tax audits on revenue collection is a subject of great interest and research. Several studies have explored the effectiveness of tax audits in increasing tax compliance and thereby boosting revenue generation. However, the relationship

between tax audits and revenue collection is complex as well as can be influenced by various factors such as the level of tax evasion, the efficiency of the tax administration, and the overall economic climate (Olaoye, 2019).

According to the OECD (2006a), a tax audit is the examination of whether a taxpayer has correctly declared his tax liability and fulfilled other obligations. It is often more detailed and in-depth than other types of reviews such as general on-site audits, compliance visits or document benchmarking programmes. As Biber (2010) has observed, the role of an audit programme in a modern tax administration must extend beyond simply verifying a taxpayer's declared obligations and detecting discrepancies between a taxpayer's declaration and supporting documents.

Adesina (2005) defined audit as the examination of accounting and supporting documents to form an opinion on their adequacy. It is a review intended to serve as a basis for expressing an opinion on the fairness, consistency, and compliance with generally accepted accounting principles of a statement prepared by a company or other entity for delivery to the public or other interested parties. Therefore, a tax audit is a way to ensure compliance with tax laws. The main objective of a tax audit is to maintain confidence in the integrity of the self-assessment system. It helps to improve voluntary compliance by sensing and bring to book those who do not pay the correct amount of tax. The numerous roles assigned to tax auditors need the staffing and conservation of experienced tax auditors with technical knowledge, audit skills, and strategic knowledge.

A tax audit refers to the examination of a taxpayer's financial records and accounts by the tax authorities to ensure compliance with the tax laws and regulations. The purpose of a tax audit is to verify the accuracy and completeness of the taxpayer's reported income, deductions, credits, and other relevant information. It aims to ensure that taxpayer's are fulfilling their tax obligations and paying the correct amount of tax. Additionally, tax audits help to detect and deter tax evasion, as well as maintain public confidence in the integrity of the tax system. The information obtained through tax audits assists tax authorities in determining the taxpayer's tax liability and in ensuring fairness and equity in the distribution of the tax burden. Tax audits also play a vital role in revenue collection by identifying underreported income or incorrect deductions, which helps in maximizing the revenue generated from taxes (United States Internal Revenue Service).

2.2.2. Inspired Trust Theory

This theory states that stakeholders demand accountability from management in exchange for their contribution to the organization as contributors according to Due (2003). It was developed based on the assumptions that stakeholders want to know how their resources are being used and that managers are responsible and goal-oriented as stakeholders. The theory states that accountability can be justified through audited financial statements. So accountability enters the audit.

2.2.3. Moderator of the Actor Theory

This theory is stated by Frey (2003) that it is important that all essential participants in an organization continue to contribute. To continue these contributions, it is important that each group feels that they are receiving a fair share of the organization's income. This is based on the assumption that when one receives a fair share, a fair share will be paid. This is how the audit theory presents itself.

2.2.4. Policeman Theory

Policeman Theory refers to a historical perspective on the role of statutory auditors, suggesting that their primary responsibility is to act as financial watchdogs or policeman, with a focus on detecting and preventing fraud and financial misconduct within an organization (Humphrey et al., 1993). This theory implies that auditors are primarily responsible for identifying and reporting fraudulent activities and errors in financial statements. Implied responsibilities of statutory auditors encompass the duties and expectations associated with the auditing profession beyond their core role of expressing an opinion on the fairness of financial statements (Olaoye, 2019).

2.2.5 Agency Theory

Adams (1994) used agency theory to explain that it is in management's interest to maintain a strong internal audit department. The implementation of audit recommendations is very important for the effectiveness of the audit (van gansberghe, 2005) and the management of an organization is considered the client that receives internal audit services. Therefore, the commitment of the management to use the audit recommendations and the support to strengthen the internal audit are essential for the effectiveness of the audit (Sawyer, 1995). Hayes et al. (1999), we posit that agency theory can be used to explain the supply side of the audit market. The contribution of a third-party audit is determined primarily by the auditor's ability to detect errors in the financial statements and the auditor's willingness to report those errors.

2.2.6 Positive Accounting Theory

"Positive Accounting Theory" (PAT) reviewed and criticized the positive accounting literature after the publication of Watts and Zimmerman (1978, 1979). The authors seek to evaluate and explain the concept of economic consequences of managerial interests and accounting and financial reporting. In other words, their main goal is to explain and predict why managers and accountants choose certain accounting methods over others. In addition, they claim that firm attributes, such as debt and size, are predictors of a firm's accounting choice.

Watts and Zimmerman seek to develop a positive theory of accounting standards. Such a theory will help us better understand the source of the pressures that drive the accounting standard setting process, the effects of different accounting standards on different groups of individuals and the allocation of resources, and why different groups are willing to spend resources to try to influence standardization process" (Watts and Zimmerman, 1978).

2.2.7. Institutional Theory

According to (Meyer & Rowan, 1991; Scott, 2007) Institutional theory is traditionally concerned with how various groups and organizations better secure their positions and legitimacy by conforming to the rules and norms of the institutional environment. The term institutional theory is related to organizations' actions over time such actions are said to be legitimated within an organization and environment. Institutional theory advises that internal operating processes loosely coupled with the observable structures accomplish the real work of an organization.

Institutional Theory is thus concerned with regulatory, social and cultural influences that promote survival and legitimacy of an organizations rather than focusing solely on efficiency- seeking behaviour (Roy, 1997). These institutional forces are identified in multiple works from sociology (DiMaggio & Powell, 1983, 1991; Roy) and organizational theory (Meyer & Rowan, 1991) to political science (Bonchek & Shepsle, 1996), and economics (North,1990). Institutional elements comprise the institutions and over time the institutional elements are given priority. The key point is to identify what institutional elements reinforce or undercut other elements (Scott, 2018). Functional pressure, political pressure, and social sources are three possible factors that cause pressure on institutional common practices (Oliver, 1991).

2.2.8 Stewardship Theory

Goyder (2021) describes Stewardship as ``the active and responsible management of entrusted resources now and in the longer term, so as to hand them over in a better condition`` (p, 63). Stewardship theory outlines a co-operative and optimistic view of relationships within the corporation by assuming that managers are good stewards and do not misappropriate corporate resources; their behavior is also conditioned by non-financial motives such as the need for recognition of their achievements and performance (Vanden, 2016).

2.2.9 Stakeholder Theory

Stakeholder theory explains the relationships between organizations and their external environment (Freeman, 1984). A stakeholder is defined as a human agency that can influence or be influenced by the organization (Gray et al., 1996). Stakeholders represent the broad umbrella for all individuals and parties that may have a direct or indirect interest in an organization. Direct stakeholders are shareholders, employees, investors, customers, and suppliers whose interests are aligned with those of the company. An example of an indirect actor is the government, which is indirectly influenced by the business function (Kiel and Nicholson, 2003). Due to this role of shareholders, organizations are not only accountable to shareholders but also to stakeholders.

2.2.10. The Lending Credibility theory

Akinbuli (2010) who claims that audited financial statements can increase stakeholders' trust in management postulates that to ensure that the financial statements are true and fair; an independent person should examine the financial statements, justify them and then produce a report. It has been stated that shareholders and stakeholders trust the auditor's report and feel confident.

2.2.11. Objectives of Tax Audit

A tax audit will have several purposes. Among other things, it manages and enforces the tax program in an impartial manner, determines the correct reporting of the taxpayer's audited taxes, stimulates the accuracy of tax self-assessments by educating taxpayers through the "visibility" of the audit presence (New Mexico Department of Taxation and Revenue Audit and Advisory Division, 2019). The overall objective will then be to improve taxpayer compliance, so that they declare the correct amount of tax and pay it on time. A taxpayer's expectation of an audit should act as a deterrent and encourage the taxpayer to file a reliable tax return whenever possible. It also improves taxpayer knowledge and understanding of relevant taxes (ERCA Audit Manual, 2014).

The objectives of tax audit according to Bitrus (2014) are to enable tax auditors to determine whether:-

There are adequate books and records to determine the taxable profits or losses of the taxpayer and therefore the tax payable; All applicable tax laws have been complied with; Identify cases of tax fraud and recommend them for investigation; Tax calculations submitted to the authorities by the taxpayer agree with the basic data; To provide a way to inform taxpayers about the various provisions of the tax laws; Prevent tax evasion; Detect and correct accounting and/or arithmetic errors in tax returns; Prevent a taxpayer from failing to file a tax return; and Prevent a taxpayer from filing incomplete or incorrect returns in support of the self-assessment scheme.

According to Erard (1994), some of the reasons for tax control include helping the government collect the necessary tax revenues for the budget, maintaining economic and financial order and stability, ensuring that taxpayers submit satisfactory returns, minimizing the rate of tax evasion; to ensure strict compliance with tax laws by taxpayers, to improve the rate of voluntary compliance by taxpayers and to ensure that the amount due is collected and remitted to the government.

2.2.12. Types of Tax Audit

There are different kinds of tax audit which are applied around different countries based on types of tax being audited. These types of audit services are Audit of the financial statements of the company to provide assurance on the financial statement; Compliance audit to find whether the company has complied with the required laws and regulations and Operational audit to check for the operational efficiency and effectiveness of a process (Grandcolas, 2005). From the above type of tax audit service: operational efficiency and effectiveness are audits of performance but an audit of financial statements and compliance audits are mostly applied for a tax audit. However, audits can vary in their scope and the level of intensity in which they are conducted. So, various terminologies have evolved to describe different types of audit activity (OJONTA, 2021).

2.2.12.1. Field Issue Audit

According to Ojonta (2021) a Field Audit describes usually carried out outside the Inland Revenue's office in the taxpayer's business premises. The need to carry it out on the taxpayer's premises is to enable the tax auditor's carry out the examination of applicable documents and also obtain appropriate information directly from the officials of the business. This takes more time and

more basic documents are always required. Some documentation can also be taken down to the office for detailed verification. This is the escalation of a desk issue audit into a field activity or exercise. It is important to remember that the audit is limited to key issues of compliance or a tax type or period. Field issue audit is commonly used in examining whether a taxpayer has met his/her obligations in respect of PAYE, VAT/TOT and Excise tax, Withholding Tax or Income Tax normally for a specified tax period.

2.2.12.2. Full Audit

Erbil (2021) defined a full audit as a review of all information relevant to the calculation of the tax due by a taxpayer for a given period. This audit may cover all tax obligations for several tax periods, or extend for several years up to the limit provided by law. All cases in which an understatement or serious fraud has been detected in one of the other audits must be referred to a unit responsible for carrying out full audits of all tax obligations.

A full audit is classified as very complex, complex and simple. This classification will depend on several factors ranging from the size, group, trade or profession, volume of registrations or transactions, nature of the business in place. In practice, the scope and nature of any comprehensive audit activity to be undertaken will depend on the available evidence indicating the potential risks of non-compliance and the history of the taxpayer. An audit may also be classified and justified as complex or very complex due to the extremely complex financial and/or business activities of the taxpayer (ERCA Audit Manual, 2014).

2.2.12.3. On-site verification (Desk Audit)

The objective of the on-site verification is to ensure the completeness of the elements presented for tax purposes. The inspector conducting an on-site inspection will also look for obvious errors or mistakes in the tax calculations and/or accompanying documents and records. The result of an on-site audit may lead to an on-site audit whenever additional information or documentary evidence is needed to convince the tax inspector conducting the on-site audit. The main thing is to ensure a certain level of compliance with tax laws, rules and regulations, as well as to confirm administrative checks or submitted statements (Ojonta, 2021).

2.2.12.4.. Advisory Visit Audits

These visits are very appropriate when introducing new tax laws (OECD, 2006). Fraud investigation: according to Krellove (2005). Fraud investigation is a type of tax audit that investigates criminal which arises from where the most serious cases of noncompliance. It helps to detect fraud, evasion, and criminal activity fraud investigation requires special skill including meeting evidentiary requirements, seizure of pieces of evidence or records, testimony from key witnesses and preparing briefs for courts. Hence, it should be undertaken in accordance with criminal procedure laws. OECD (2016a) stated that revenue authorities should maintain a dedicated organizational unit responsible for the handling of serious cases of tax fraud or evasion.

2.2.12.5. Special Audit Projects

Audit projects may be organized as a separate project for a targeted or specific group of taxpayers over a certain period of time to verify compliance within the sector. These audit projects may cover an industry, trade, profession or sector of activity. They will consist of specific audits and will be used to address a particular risk or to determine the extent of non-compliance within a particular sector, industry or trade. For this type of audit to be effective, all taxpayers in the target sector should be considered and processed as soon as possible (ERCA Audit Manual, 2014).

2.2.12.6. Refund Audits

Grandcolas (2005) noted that refund verification should only cover the period covered by the claim. A pre-refund check should be performed to verify the taxpayer's eligibility for a refund before processing a first refund claim, especially for new filers. It is also performed when the refund claim deviates significantly from established patterns and trends. Subsequent application checks should be performed selectively. This is the verification of a taxpayer's refund claim before the refund is processed.

Audits can be organized as a separate project for a targeted or specific group of taxpayers in a given period to verify compliance in the sector. These audit projects may cover an industry, trade, profession or a line of businesses. They will consist of specific checks and are used to address a particular risk or to establish the degree of non-compliance in a particular sector, industry or trade. For this audit type to be effective, all taxpayers in the targeted sector must be considered and handled within the shortest time possible. (ERCA audit manual, 2014).

2.3. Audit Case Selection Method

Most of the tax authority in developing countries perform their tax audit by either random case selection or criteria/information selection system rather than use case sensitive data mining model. These two audit selection system were preferred at her than using case sensitive data mining model (Andreoni et al, 1998). Tax administration, with limited resources and relatively large numbers of taxpayers to administer (especially in the small and medium enterprises), must design the audit program to deploy audit resources in a risk-based way with a view to achieve the most possible compliance and revenue objective (OECD 2016a; and Thomson 2018).

2.3.1 Audit workforce Capabilities

2.3.1 Audit staff skills

Different skills are required for working in different market segments or with clients with different tax compliance behaviors. Typical areas of difference are the skills required for aggressive non-compliant clients, auditing large enterprises (a deeper and more specialized knowledge of the regulations specific to this segment is required), conducting audits of electronic systems and databases, and the commission of crimes and fraud (OECD 2006b)

Capacity gaps: According to the OECD (2006), tax administrations can develop staff and address capacity gaps through recruitment processes and the use of programs such as training and development programs, mentoring and coaching programs, accreditation models, rotation and/or placement program, career paths, knowledge sharing initiatives, and knowledge tests. The line manager generally conducts competency assessments during recruitment and promotion processes on an annual or biannual basis for employees in their current position (OECD, 2006a).

2.3.2. Required Capability

According to OECD (2006a) stated, the required capabilities of auditors are generally identified by analyzing the activities required to perform particular audit tasks, and through practice and experience. In addition to their primary role of detecting and deterring noncompliance, tax auditors are often required to interpret complex tax laws and conduct intensive examinations of taxpayer's books and records. Hence, revenue bodies pay close attention to the overall management of the tax audit function, and particularly to the strategies and methods used for recruiting, developing and managing individual audit staff.

2.3.3. Tax Audit Program

The tax agency audit program performs a number of important functions that, if carried out effectively, can contribute significantly to improving the administration of the tax system. Most governments around the world are responsible for overseeing the process of collecting taxes from individuals and businesses resident within the jurisdiction's standard deviation (OECD, 2006).

The tax audit program provides visibility to the tax administration's compliance and enforcement department (Thomson, 2018). According to Tait (1988), effective tax audit minimizes tax evasion and also helps tax agencies achieve revenue targets that ensure the fiscal health of the country and individual states. 2.3.4. Tax Audit Standards When conducting a tax audit, the auditor must apply generally accepted auditing practices, as in the case of other audits, for example an audit of a company under the Companies Act (Kangave, 2016). While conducting the audit, the auditor must keep in mind that the main objective is to help the authorities assess the income received by the taxpayers. To make a tax audit successful, the auditor must develop an approach that is a synthesis of the tax laws and also supports tax agencies to achieve revenue goals that ensure the fiscal health of the country.

2.3.4. Tax Audit Standards

In conducting a tax audit, the auditor should apply the generally accepted practices of auditing as one would do in the case of other audits, e.g. an audit of a company under the companies' act (Kangave, 2016). In conducting the audit, the auditor should keep in mind that the basic objective behind is to assist the authorities in assessing the collect income of the assessed. For conducting the tax audit effectively an auditor needs to develop an approach that is a synthesis of taxation laws and auditing principles. The nature of tax audit is such that an auditor has to rely on various legal pronouncements in the field of taxation (Kangave, 2016).

2.3.5. Government Audit Revenue

Government revenue is mainly derived from statutory taxes through various tax laws. However, the distribution of both resources, namely tax and non-tax revenues, varies from country to country (Eugene, 2021). According to (Mesfine, 2018), since virtually all tax returns are accepted as submitted without technical review when the principles of self-assessment are applied, it is essential that the system is supported by a reliable automated tax audit system that uses risk-based screening techniques. An audit, on the other hand, is the conduct of audit staff to properly verify

the tax obligations declared by selected taxpayers. This may also include cross-checking taxpayer records with those of taxpayer suppliers or with other sources of information such as customs authorities or other government departments and agencies (Eugene, 2021).

2.3.6. Tax Compliance

The exact meaning of tax compliance has been defined in various ways. For example, Andreoni, Erard and Feinstein (1998) argued that tax compliance should be defined as the willingness of taxpayers to obey tax laws in order to achieve economic equilibrium in a country. Kirchler (2007) perceived a simpler definition in which tax compliance is defined as the most neutral term to describe the willingness of taxpayers to pay their taxes. Compliance in purely administrative terms involves registering or informing the tax authorities of the taxpayer's status, filing an annual tax return (if required) and respecting the required payment deadlines (Ming Ling, Normala and Meera, 2005).

2.3.7. Reasons for Tax Evasion

Various reasons are the reasons that encourage and push taxpayers to act towards tax evasion have been identified by various studies and authors including: Kirchler, Stephan, Barbara and Ingrid (2007) and Magesa (2014) stated that the reasons for tax evasion can be classified into two categories. The first category includes factors that negatively affect taxpayer compliance with tax laws. These factors can be subsumed either contributing to a low willingness to pay taxes (low tax morale, tax system and perception of fairness, low transparency and accountability of public institutions) or high costs to comply with tax laws. The second category contains the reasons for the low ability of tax administration and fiscal courts to enforce tax liabilities (Kirchler, 2007).

2.3.8. Effects of Tax Evasion

According to Fildstad (1996) he says tax evasion has had a variety of fiscal effects and there are at least three reasons responsible for this, in the first place, revenue losses from noncompliance and corruption become significant at a time of substantial budget deficit. Second, horizontal and vertical equity suffer because the effective tax rates faced by individuals may differ because of different opportunities for tax evasion (Alm & Martinez, 2001). Again, Shome (2005) stressed that, an important adverse effect of tax evasion is perhaps on equity. There is horizontal and vertical inequity where in both forms of inequity, the higher-taxed person pays for the lower- taxed person

since, had there been no tax evasion; the tax rates would have been lower under the premise of revenue neutrality. Third, there is a growing concern about the expanding underground economic activities, and how these activities affect economic policies (Tanzi and Shome, 1993).

2.3.9. Audit Effectiveness

One of the key insights gained at the 2017 TARC Workshop was from the presentation on audit effectiveness by Umar (2017). While previous research on the relationship between audit enforcement and tax compliance has traditionally focused on the effects of audit probability, detection probability and sanctions, Umar argued that the dynamics of audits in developing countries do not necessarily follow the assumptions made in advanced countries. He argued that, despite the new wave of socio-psychological variables in the aftermath of Allingham and Sandmo (1972), audit could still play a key role in tackling the large-scale tax non-compliance in developing countries.

2.4. Empirical Literature Review

Regarding empirical reviews of the evidence on tax control and revenue collection, the researcher found several studies conducted with specific organizations in different countries, but few studies have been conducted to establish the possible effect of tax control on revenue collection. The following subsection integrates a number of studies conducted on tax control and revenue collection.

Rhoades (1999) studies the impact of multi-component reporting on tax control and compliance strategies. The study modeled taxpayer behavior and tax authorities' control strategies in the context of multi-dimensional reporting of taxable income and analyzed the impact of component reporting requirements on taxpayer incentives to falsify tax liability. The study results revealed that the impact of multi-component reporting requirements on specific taxpayers critically depends on their set of tax avoidance opportunities. The study found that taxpayers with many opportunities for tax evasion misreported different components of their income to minimize the direct and indirect effects of detection, while those with limited opportunities for tax evasion pursued them less aggressively in the multicomponent model.

In addition to the above studies on non-compliance (Chan and Mo, 2010), the study also investigated the effect of tax holidays on the tax behavior of foreign investors in the development

of the Chinese economy. The empirical results of the study show that the tax exemption status of a company affects non-compliance. Companies are less compliant during the pre-tax holiday period, while they are more compliant during the tax holiday period. The study also showed that domestically oriented companies, service companies and joint venture companies are less compliant than export-oriented companies, manufacturing companies and wholly foreign-owned companies, respectively. Similarly, Sen and Bala (2002) studied the tax compliance operations in Bangladesh. The objective of the study was to conceptualize the term fiscal audit performed by Chartered Professional Accountants and to provide an overview of the prevailing fiscal scenario and fiscal audit operations. The results of the study confirm that Bangladesh is unable to raise sufficient resources through taxes.

Similarly, (Arachi and Santoro, 2007) also studied the use of tax audit strategy as a control tool for small and medium-sized enterprises in Italy. The study focused on a major innovation in the field of tax audits of self-employed workers and small businesses. The main conclusion of the study is that tax audit for SMEs is still difficult because they generally operate at the border between the formal economy and the shadow economy. The study also showed that the distribution of firm sizes affects the optimal tax audit policy in two ways. First, there may be a relationship between firm size and the propensity to evade or evade taxes. Second, the costs and benefits of a tax audit may depend on the size of the company. The study also showed that sector analysis can be a valuable policy tool for developing countries, which have a large shadow economy and a high proportion of micro-enterprises.

In addition to the above studies on the effect of tax audit on revenue collection (Gebeyehu, 2018), emphasis is also placed on the basic concepts of tax audit and the importance and role of tax audit in increasing tax revenue and strengthening the capacity of tax administration is analyzed of tax administration. The results of the study showed that the highest tax to GDP ratio in Ethiopia was 13%, recorded in 2003/04. The study stated that personal income tax does not require critical assessment other than verification of the transmission of the amount withheld by the employer to the relevant tax authority. In contrast, the income tax requires a lot of effort to collect and collect due to the high risk of understatement and tax evasion, as most taxpayers use all mechanisms that can underestimate their tax liability.

Mihret, (2021) focuses on the main problems of tax audit operations in terms of the importance of the type of audit used, the degree of audit, the suitability of audit file selection methods, audit review techniques used and the experience and capacity of audit personnel resources at the federal government level. The results of the study show that the tax audit program remains underdeveloped and that a small range of tax audit activities have been carried out for specific risks.

Mirera, (2014) conducted a study on the effects of tax audit on revenue collection in the case of Kenya Revenue Authority. The study was limited to the Nairobi West Region of the Kenya Revenue Authority and adopted a descriptive research approach. The study was conducted using secondary sources of data. The data were analyzed using the t-test analytical model. The results of the study show that the results of the Pearson parametric correlation statistic or ' value were significant for the tax paid before the audit and the tax paid after the audit, which clearly shows that there is an increase in the tax paid after the audit. Thus, it is right to say that tax audit is directly related to revenue collection.

Likewise, Astebha (2016) examined tax audit practices and challenges faced by the Ethiopian tax and customs administration, particularly in the case of large taxpayer offices. His objectives were to assess the challenges of implementing tax audits among large taxpayers, to find out how tax audits are being conducted to reduce tax evasion and avoidance, and to examine the competence of auditors in the Ethiopian Tax and Customs Administration. The main finding of this study is that the reported income increased significantly in the group that adopted a rational audit strategy compared to the control group. The results of the study clearly show that the information on the use of rational audit strategies is higher than the information on random audits and that the information on audits, in general, is higher than no information.

Mebratu (2016) conducted a study to examine the impact of tax audit on tax compliance in Ethiopia, at the federal level using secondary macroeconomic data. To analyze the data, the partial coefficient regression statistical analysis method was used. The result of the Pearson correlation and bivariate regression of the study shows that there is a strong relationship between the probability of detection of an audit and the level of tax compliance. In addition, the regression result of the study reveals that there is a strong relationship between the number of audited files

and the level of tax compliance. The result of the Pearson correlation and partial regression coefficient of the study shows that there is a strong relationship between the probability of detection of an audit and the number of audited files with the level of tax compliance. The study concludes that, since the contribution of tax audits to improving taxpayer compliance is important among other measures, the country's tax authorities and other stakeholders should pay more attention to the role of tax audits in training staff and the qualifications needed to improve taxpayer compliance and thus increase the country's tax revenues.

Similarly, (Jemaiyo, 2016) analyzed the determinants of tax compliance and their impact on the level of tax compliance in the real estate sector, Eldoret city, Kenya. Using an ex post facto research design, the study targeted a population of 605 people. A sample of 68 respondents, including real estate investors, tax auditors and tax compliance officers, was drawn from the target population using snowball sampling and purposive sampling methods. The data were collected using a structured questionnaire and analyzed using chi-square. This study found that the cost of tax compliance, tax knowledge, tax penalties and tax control have a significant effect on the level of tax compliance.

Finally, (Harelimana, 2018) examined the effects of tax controls on revenue collection in Rwanda. The study was limited to 110 respondents from the Rwanda Revenue Authority (RRA) headquarters in Kigali. The study adopted a descriptive approach. Data analysis included statistical calculations for means, percentages, and correlation and regression analyses. Ordinal least squares (OLS) regression analysis method was adopted to determine inferential statistics. The results of the study suggest that the tax audit has an effect on the collection of revenue as according to the t-test, there was a significant correlation between the taxes collected before and after the audit.

2.5. Conclusion and Research Gap

In general, as noted above, all studies that have attempted to assess tax audit have focused on the importance of tax audit practice in increasing revenue, and tax audit issues related to large taxpayers at the national level and also focused on tax audit practices and challenges carried out at different levels in different countries. For example, Gebeyehu (2008) studied tax audit practice and its importance in revenue growth in Ethiopia; the case of Addis Ababa city administration, Mihret (2011) studied tax audit practice in Ethiopia: the case of the federal government, Abera (2016) studied the factors affecting the effectiveness of tax audit, evidence from the Ethiopian Revenue

and Customs Authority Large Taxpayers Office (based on auditors' perceptions) and Shumetic (2019) studied the perception of tax audit practices, evidence from the Ethiopian Revenue and Customs Authority Large Taxpayers Office.

However, not all studies have been able to consider the impact of tax audit on revenue collection and, to the best of the researchers' knowledge, no attempt has been made to assess tax audit issues with such variables and aspects as revenue growth, capacity building of tax administration, challenges in tax audit implementation in Kellem Wollega Revenue Office, capacity of tax auditors and tax audit operations at the area administration level. These studies have shown that there is a lack of research on the topic of the effect of tax audit on revenue collection in the context of Kellem Wollega area, Oromia, Ethiopia.

2.6. Conceptual Framework of the study

The overall objective of this study was to identify and analyze effect of tax audit on revenue collection based related theories and empirical literatures. Empirical evidences suggest that most independent variables that should have to be included in the study were chosen according to the characteristics that they create more impact on revenue collection.

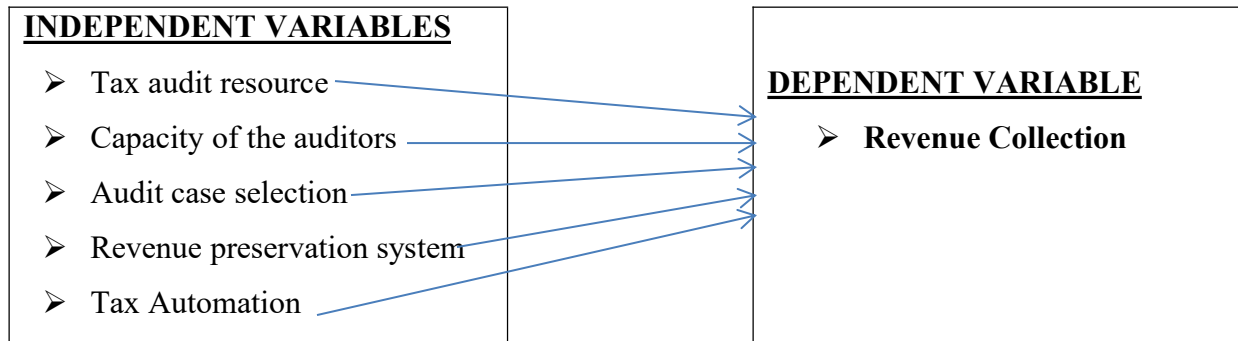


Figure 2.1 Conceptual framework of the study adopted from the reviewed literatures by researcher (2024).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Description of the Study Area

This study was conducted in Kellem Wollega Zone Revenue Office; Kellem Wollega zone which is located in Oromia regional state, Ethiopia. It is located between 8°10'58"N-9°21'53"N latitude and 34°07'37"E-35°26'53"E longitude. It is bordered by west Wollega on North and East, Benishangul Gumuz in North-West, Ilubabor zone in South and South-East, Gambella in West and South-West, and Sudan in the West. It is located at about 652 km away from Addis Ababa. The annual rainfall pattern in the zone generally decreases from east to west following the physiographic nature of the zone. The mean annual rainfall of the eastern high lands range from 1800-2000mm, while in the central plateaus range between 1600-1800mm and in the remaining parts of the zone it becomes between 1200-1600mm and becomes less than 1200mm in the southwestern parts of the zone. The zone is highly characterized with woyina dega climatic classification which is highly suitable for agriculture (Administration office of KWZ, 2024).

The central part of the zone has the altitudinal range of 1500 meters to 2500 meters which extends to the north and eastern part of the zone. Most part of the Kellem Wollega zone ranges between 500 meters to 1500 meters. The zone have relatively low plateau of undulating landscape as a result of erosion. This elevation of this low plateau ranges between 1500 and 2000 meters. The major lowlands of the zone is Baro lowland which rises in elevation between 1000 and 1500 meters, separates Kellem Wollega plateau from that of Ilubabor. The major soil types of Kellem Wollega zone are acrisols, Nitosols, Eutric Fluvisols, Distric Histosols, and Vertisols.

According to data obtained from the zone, 25% of District is High land, 35% is Tropical humid and 40% is low land area. The rural populations of Kellem Wollega Zone are mostly agrarian which practicing mixed farming, dominated by cash crop production followed by livestock husbandry. The dominant economy for the people of Kellem Wollega Zone is agriculture, mainly crop production and animal breeding. In this economic sector both cash crop and subsistence crops are produced. The major subsistence crops are maize, Enset, Teff, Bean, Pea, Barley and Wheat. The main cash crops produced in the sector of agriculture are Coffee, Spices & Honey Administration office of Kellem Wollega Zone, 2024)..

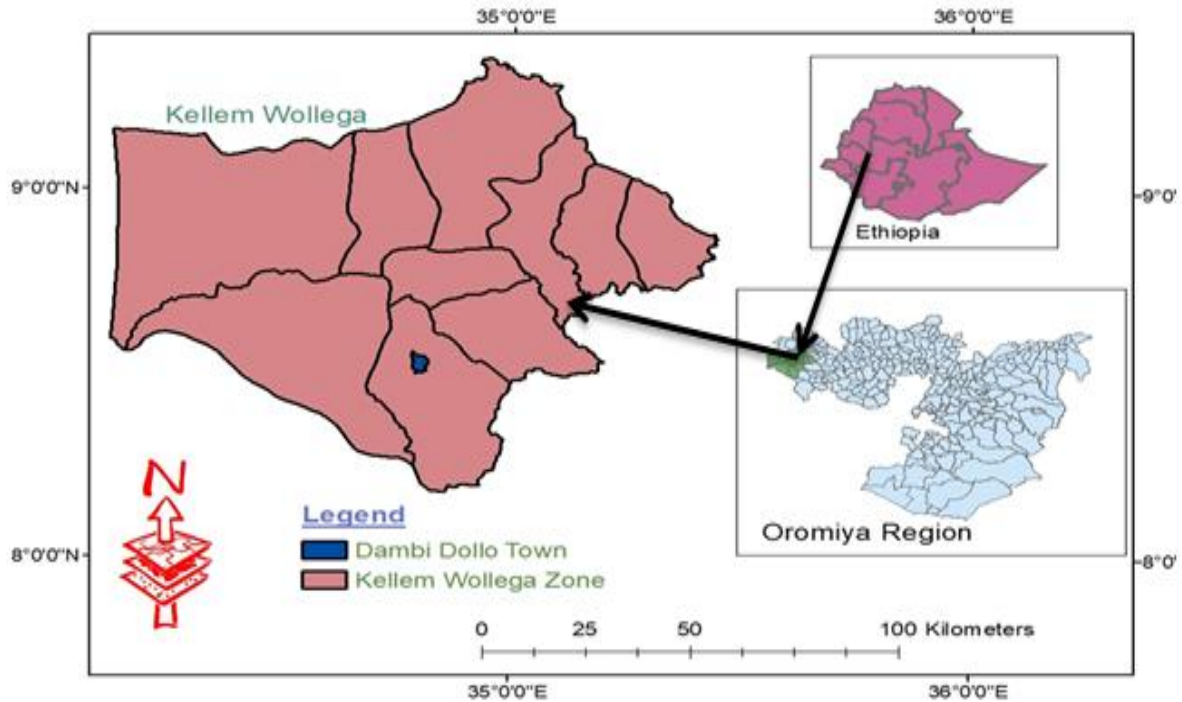


Figure 3.1: Geographical location of the study area

Source: (Administration office of Kellel Wollega zone, 2024)

3.2 Research design

This study was conducted at Kellel Wollega District Revenue Office to examine the effect of tax audits on revenue collection. The researcher used an explanatory research design to examine the effect of tax audits on revenue collection. Explanatory research will seek to explain the phenomenon being studied (Kothari, 2004). So in this case, the researcher used an explanatory research design to determine the correlation between tax audits and revenue collection.

3.3 Research Approach

Based on the study objectives and the availability of relevant information, the study used the three common approaches known for conducting a research project, namely qualitative, quantitative and mixed methods approaches. The qualitative approach is mainly used when the researcher needs to develop a complex and holistic picture, analyze words, reports, detailed views of informants and conduct the study in a natural setting and includes studies that do not attempt to quantify their findings through summary or statistical analysis (Creswell, 2019). The rationale for adopting the quantitative approach includes: developing understanding of cause and effect thinking, reducing to

specific variables and hypotheses and questions, using measurements and observations, and testing theories, using research strategies such as experiments and surveys (Creswell, 2019).

3.4. Target population and Sampling Technique

To examine the relationship between the dependent variable and the explanatory variables, the researcher used cross-sectional data analysis. In the Kellem Wollega Area Revenue Administration, there are 12 offices (i.e, 11 revenue offices and 1 town revenue office). According to the data that the researcher found from the Human Resources Department of the Kellem Wollega Area Office in January 2024, the total number of employees is 258; among them 31 are currently work in the tax control department. Therefore, the target population of this study was all the tax auditors, team leaders and managers of the audit process who are located in the Kellem Wollega Revenue Office. Indeed, it is necessary to contact experts in the field who know the work and have a deep understanding of the field of study; they are closely related to tax control functions and with the aim of obtaining detailed primary information.

3.5. Source and Method of Data Collection

Primary and secondary sources of data were used in the study. Primary data were collected through questionnaires prepared with closed questions and to address the respondents, the researcher uses mechanisms such as face to face, telegram and telephone. Secondary data were collected from various operational manuals and office documents. In addition to various types of literature including published and unpublished books, annual or quarterly reports, newspapers or articles and other relevant official reports were used.

3.6 Data Analysis and Presentation

To analyze the collected data, the researcher used descriptive statistics and inferential analysis. Descriptive statistics were used to determine the minimum, maximum, mean and standard deviation. Multiple regression model analysis was used to determine the relative importance of the variables. The data was presented quantitatively using a graph, a table and also the data presented qualitatively using narratives. To conduct this study, the researcher used statistical tools for SPSS software.

3.7 Model Specification and Description of Variables

To examine the impact of tax audit on revenue collection, there is an estimated equation where Revenue collection in Kellem Wollega zone revenue office is reflected as a function of the following variables.

$$RC = (TR, CA, AC, RP, TA) \dots \dots \dots (1)$$

RC- Revenue collection (measured as amount of revenue collected from tax payers under each year) and is dependent variable of the study.

TR= Tax audit resource

CA = capacity of the auditors

AC = audit case selection

RP = revenue preservation system

TA = Tax Automation

The above equation number (1) can be re written in the following econometric model with its functional forms.

$$RC = \beta_0 + \beta_1 TA_t + \beta_2 TR_t + \beta_3 AC_t + \beta_4 CA_t + \beta_5 RP_t + e \dots \dots \dots (2)$$

Whereas; β_0 is the intercept and β_i ($i=1, 2, 3, 4, 5$) represents the coefficient for each of the independent variables respectively.

3.8. Definition of Variables

3.8.1 Dependent Variable

Revenue collection was used as a dependent variable in this study and measured as the amount of tax collected from taxpayers.

3.8.2 Independent Variables

Under this subsection Tax audit used to assure taxpayers tax liability. To measure tax audit five hypothesized variables are tax audit resources, auditors' capacity, audit case selection, revenue protection system, and Tax automation.

3.8.3 Variable Measurement

In this study the revenue collection has been measured using five hypothetical questions. The use of hypothetical questions can increase reliability of results and minimizes respondents' dishonesty when answering the questionnaire (Troutman, 1993). The respondents was asked to relate each hypothetical with revenue collection performance and would undertake the same action if they faced the same situation using 'strongly disagree' to 'strongly agree', using a Likert Scale of 1 to 5 respectively. Expected sign of Variables used in regression is listed under the following table.

Table 3.1 Summary of expected sign of Variables used in regression

Abbreviations	Variables	Descriptions	Expected sign
RC	Revenue Collection	Collected Revenue	Not Appropriate
TR	Tax audit Resource	Measured by likert scale questions	+
CA	Capacity of the auditors	Measured by proxy questions	+
AC	Audit case selection	Measured by likert scale questions	+
RP	Revenue Protection systems	Measured by likert scale questions	+
TA	Tax Automation	Measured by likert scale questions	+

3.9 Reliability and Validity of the research tools

3.9.1 Reliability

Reliability focuses on the extent to which a measurement of an occurrence delivers steady and consist a results. The most used internal consistency measure Cronbach Alpha coefficient was be applied in this study. It is viewed as the most appropriate measure of reliability when making use of Likert scales (Robinson, 2010). No absolute rules exist for internal consistencies, however, most agree on a minimum internal consistency coefficient of 0.70 (Robinson, 2010). For each scale, the Cronbach Alpha coefficients were calculated using SPSS software, and reliability statics will be constructed accordingly.

3.9.2 Validity

The term Validity explains how well the collected data covers the actual area of investigation (Ghauri & Grønhaug, 2010). Validity basically refers “measure what is intended to be measured” (Field, 2005). A test of the research instrument to test its validity and reliability was carried out. In terms of validity, the questionnaire was checked for consistency basing on Cronbach’s alpha. A total of 31 respondents of the study were used to test the data collection instruments.

3.10. Ethical Consideration

This study was conducted in professional manner and in a way that it maintains the basic research ethics. Thus, researcher attempted to consider ethical issues during the conducting of the study. The ethical considerations were taken in to account in this study are presented as follows:

Voluntary participation:- the respondents who was involved in the study was informed that their participation in the study is based on their voluntary consent.

Harmlessness:-respondents was not be harmed as a result of their participation or non-participation in the study.

Confidentiality:-the participants were informed that information obtained from them remains confidential. For this reason respondents was not asked to write their names in order to increase the confidentiality of the information they will provide and they also informed that their names will never be used on the report.

Disclosure of the objective:- researcher also informed to the respondents that the purpose of the study as well as the questionnaire is only for an academic purpose.

Data analysis and reporting:- researcher was also assumed an ethical obligation during data collection, data analysis, and presenting the findings of the study to the scientific community.

Conflict of Interest:- this was to declare that researcher has not have any conflict of interest to conduct the study.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1. Introduction

In the previous chapters, a reviewed a large body of literature that provides an overview of the topic, and the researcher used this literature to identify knowledge gaps in the field of study. In accordance with the reviewed literature, the research problem, research objectives, research hypotheses, and the research design used for this study were also discussed. This chapter discusses descriptive statistics of the collected data, correlation analysis, normality tests, and other important assumptions discussed to see if the model was applicable. Finally, this chapter presents the survey results and the discussion of the study results.

4.2. The respondents' response rate

In a survey research, the response (return) rate is the number of participants who answered the survey divided by the number of people asked to participate (sample size). In the study, the researcher was required to administer 31 questionnaires from the respondents who were the tax auditors in Kellem Wollega Zone revenue office. Since a researcher collect and fill questionnaires carefully, all in all 31 from questionnaires distributed to the tax auditors all questionnaires were valid and completely filled and returned to the researcher (See table 4.1 below and Annex 1). Therefore, the calculated response (return) rate of the study was 100%.

Table 4.1 The respondent's response rate

Targeted Respondents'	Distributed Questionnaires	Returned Questionnaires	Response Rate (%)
Tax auditors in Kellem Wollega Zone revenue office	31	31	100%
Total		31	100%

Source: Own computation result based on survey data (2024)

4.3. Descriptive Analysis of the Study

To achieve the objective of the study, the researcher used purposive sampling; to select a sample of respondents from the total population of 258. Thus, the data collected through a questionnaire distributed to the respondents were analyzed and discussed. At the same time, the information obtained from secondary sources such as relevant reports and forms, action was analyzed using various tools. Out of a total of 258 employees of Kellem Wollega Area Revenue Office in 2016, the E.C. data collected by the Human Resource Development Team; from the target study population number of 258 employees of Kellem Wollega Area Revenue Office, 31 sample sizes were selected for the study. As discussed in the following subsections of the chapter; the study targeted tax auditors as the study population. The questionnaire was prepared and distributed to the respondents; each variable was represented by representative questions; the independent variables selected for the study were tax audit resources, audit file selection methods, tax auditor capacity, and income protection system and tax automation. The collected data were analyzed using SPSS version 20.

4.4. Descriptive Statistics of Variables of the Study

According to Best (1977), a standard deviation score of 1 to 1.80 is low, 1.81 to 2.61 is low, 2.62 to 3.41 is medium/moderate, 3.42 to 4.21 is high, and 4.22 to 5 is considered very high; Furthermore, the decision rules used in the analysis were that a mean less than 3 was considered low, a mean equal to 3 was considered medium, and a mean greater than 3 was considered high (Best and Khan 1995).

According to table 4.2 below; we can understand that the mean distribution of the dependent variable (RC) of the study is 4.36 which is greater than 3 and the standard deviation statistic for RC is 0.52 which is less than 1. This shows that the revenue collection performance in the KWZ office income is above its average level.

Table 4.2: Descriptive Summary Statistics of Variables of the Study

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
TR	31	2.20	4.60	3.4974	.54772
AC	31	2.20	4.80	3.4564	.55070
CA	31	1.80	4.80	3.4744	.59531
RP	31	2.40	4.80	3.6641	.54367
TA	31	2.00	4.40	3.4026	.52023
RC	31	2.38	5.00	4.3650	.52030
Valid N (listwise)	31				

Source: Own computation result based on survey data (2024)

Again, Table 4.2 above also shows us that the selection of audit cases, denoted by AC, is determined by the responsibility of the audit team, the information support for the audit program, the frequency of the audit, the availability of resources and the potential of the taxpayers. The mean value of the selection of audit cases was 3.45, which is higher than 3 and this means that the attitude of the respondents towards the selection of audit cases in the audit of the KWZ revenue office is above its average level. The variation of each observation from its mean value for this variable is 0.55.

The other independent variable is auditor capability, abbreviated as CA and represented by the agent's competence, ability to understand the tax audit manual, auditor's training and auditor's ability to analyze auditing standards. The data collected from the respondents regarding auditor capability shows a mean value of 3.47, which implies that auditors of large taxpayers have the ability to execute audit programs. The change of each observation from the mean value for this variable is 0.59.

The revenue protection system is considered an important variable in determining the performance of government revenue collection. The proxies used to measure this variable were tax audit confidentiality, country legal framework and audit manual enforcement. The data collected with this variable shows a mean value of 3.66 and a standard deviation of 0.54. This implies that, based

on the responses of the respondents, the revenue protection system in large taxpayer offices is above the average level required by the government. The final variable in the study is tax automation, abbreviated as TA, and is measured by the application of tax automation and the level of education of existing auditors regarding tax automation. The data collected with this variable shows a mean value of 3.40 and a standard deviation of 0.52. The result of the data means that the tax automation system of the KWZ Revenue Office is above the average level required by the tax authorities (see Appendix 2).

4.5. Correlation Analysis and Discussion

Correlation analysis is a statistical tool which is used to measure the strength or degree of linear association between two variables. The correlation coefficient, which always lies between -1 and +1 was used to measure the strength and magnitude or degree of linear association between two variables. A correlation coefficient of +1 shows a strong and positive linear relationship between two variables. On the contrary, a correlation coefficient of -1 indicates a strong and negative linear association between two series. A correlation coefficient of (0) shows that there is no linear relationship between two variables. The result of correlation analysis is discussed in details in the following table (See Annex 3).

According to below Pearson correlation coefficient matrix table 4.3, each variable was perfectly correlated with itself; because the correlation coefficient (r_s) is equal to one (1) along the diagonal of the table. Furthermore the below table correlation result for each studied variable are discussed as follows.

Table 4.3: Correlation between the Variables of the Study

	Correlations	TR	AC	CA	RP	TA	RC
TR	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	31					
AC	Pearson Correlation	.228*	1				
	Sig. (2-tailed)	.045					
	N	31	31				
CA	Pearson Correlation	.134	.157	1			
	Sig. (2-tailed)	.243	.171				
	N	31	31	31			
RP	Pearson Correlation	.427**	.630**	.316**	1		
	Sig. (2-tailed)	.000	.000	.005			
	N	31	31	31	31		
TA	Pearson Correlation	.367**	.346**	.357**	.400**	1	
	Sig. (2-tailed)	.001	.002	.001	.000		
	N	31	31	31	31	31	
RC	Pearson Correlation	.458**	.535**	.464**	.718**	.532**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	31	31	31	31	31	31

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

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

Source: Own computation result based on survey data (2024)

The correlation coefficient between revenue collection and tax automation was 0.532. This implies that revenue collection performance and tax control sources have a positive and significant

relationship at the 1% significance level. On the other hand, the relationship between revenue protection system and revenue collection performance is strong and positively related and significant at the 1% significance level. Auditor capacity is positively related to the revenue collection performance of the office. The correlation analysis shows a coefficient of 0.464 and is statistically significant at the 1% significance level. The selection of audit files and audit tax sources are also positively related to revenue collection performance. Correlation analysis shows a coefficient of 0.535 and 0.458 for income protection system and tax automation respectively. Both are significant at the 1% significance level with revenue collection performance.

4.6. Multiple Regression Analysis

The study used ordinary least squares (OLS) multiple regression models and used cross-sectional data from the auditors of the KWZ office. The researcher performed a diagnostic test for the classical linear regression model (CLRM) hypothesis before moving directly to the multiple linear regression analysis.

4.6.1 Results of the classical linear regression model (CLRM) hypothesis test.

A diagnostic test is performed to ensure that the assumption of the classical linear regression model is violated or not. Thus, the study also tested heteroskedasticity, autocorrelation, normality, multicollinearity and linearity, the results of which are presented and discussed as follows.

4.6.1.1. Test for no heteroscedasticity (homoscedasticity)

One of the important assumptions of the classical linear regression model is Heteroscedasticity. As noted by Brooks (2008) Heteroscedasticity assumption states that the disturbances appearing in the population regression function are homoscedasticity; that is, they all have the same variance. The variance of each disturbance term u_i , conditional on the chosen values of the explanatory variables, is some constant number equal to σ^2 . This is the assumption of Heteroscedasticity, or equal (homo) spread (scedasticity), that is, equal variance (Gujarati, 2004). If the error term u_i does not have constant variance it is said to be there is Heteroscedasticity problem.

Heteroscedasticity makes our parameter estimates no longer BLUE – they are still unbiased, but no longer have a minimum variance. Unfortunately, SPSS does not have built in procedure to test for heteroscedasticity. The test can be done by writing some codes. Despite not having built in procedure to test for heteroscedasticity, we can plot standardized residuals (ZRESID) against

the standardized predicted values (ZPRED). If there is no heteroscedasticity, the plot should look random. If u sees a pattern, such as a funnel shape or a curve, this indicates heteroscedasticity. A curve shape, in particular, could indicate some non-linearity in the relation that you failed to take into account. The following figure shows the result of heteroscedasticity of the model. The following hypothesis is set for the heteroscedasticity test.

H0: There is no Heteroscedasticity problem in the model.

H1: There is Heteroscedasticity problem in the model.

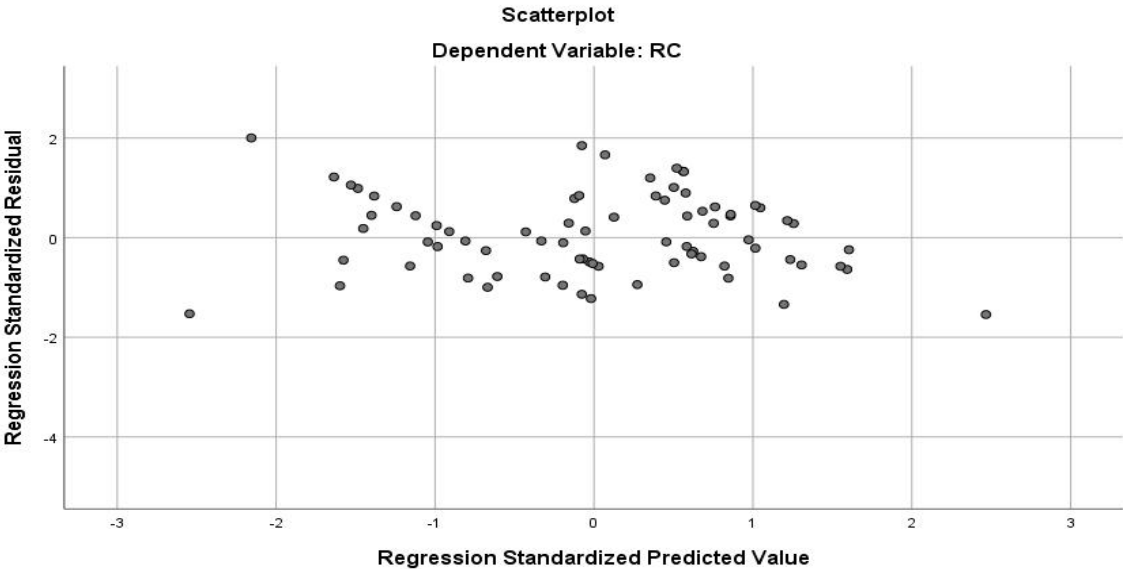


Figure 4.1: Result of Heteroscedasticity test

Source: Own computation result based on survey data (2024)

As we can observed from the above figure 4.1; the plot the residuals have a random pattern, which signifies that there is no sign of heteroscedasticity. So, the null hypothesis of no heteroscedasticity should not reject (See annex 4).

4.6.1.2. Test for no Autocorrelation

H0: there is no autocorrelation in the model

H1: there is autocorrelation in the model

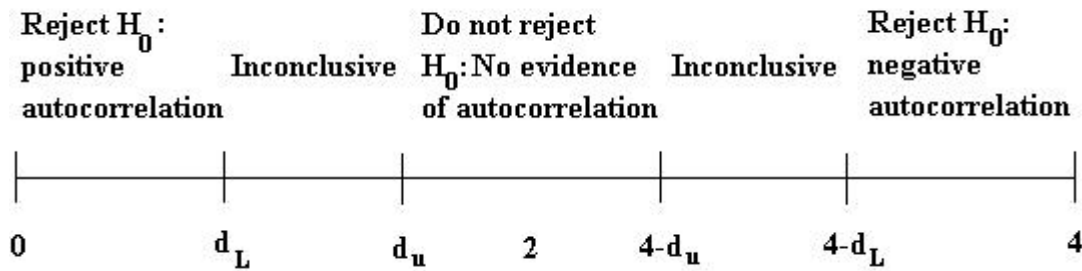


Figure 4.2: Result of Auto correlation test

The DW test statistic value for the model was 2.042 for a total observation of 31 responders with 5 independent variables. Thus the decision value for the test implies that there is no autocorrelation problem in the model. According to Brooks (2008) if the DW tests lies between 1.5 and 2.5 there is no issue of autocorrelation in the model. So, the null hypothesis of no autocorrelation is accepted because there is no evidence of autocorrelation in the study.

4.6.1.3. Test for presence of Multicollinearity in the model

The other CLRM assumption tested in this study was the Multicollinearity assumption. According to Brooks (2008) the absence of Multicollinearity assumption says that the explanatory variables are not correlated with one another. If there is no relationship between the explanatory variables, they would be said to be orthogonal to one another. If the explanatory variables were orthogonal to one another, adding or removing a variable from a regression equation would not cause the values of the coefficients on the other variables to change.

According to Gujarati, (2004) Multicollinearity refers to the existence of more than one exact linear relationship, and according to the author, the assumption of no Multicollinearity says that there are no perfect linear relationships among the explanatory variables. Correlation matrix is very helpful to check any existence of strong correlations between the independent variables. The variables which have this strong relationship might be assumed as not explaining the model with the other correlated variable.

Besides CLRM also assumes that, there is no multicollinearity problem between independent variables of the study. According to Gujarat (2004), the multicollinearity problem occurs when high inter-correlation exists among independent variables. As ‘a rule of thumb’, the problem of multicollinearity can be detected by Tolerance and VIF (Variance Inflation Factor) statistics. The

tolerance value below 0.10 and VIF value above ten indicates the existence of multicollinearity problem. Hence, in the study mutually tolerance and VIF statistics was engaged to test the collinearity problem and presented as follows:

Table 4.4: Result of Multicollinearity test

Explanatory Variables	Collinearity statistics	
	VIF	Tolerance (1/VIF)
TR	1.337	.748
AC	1.723	.580
CA	1.308	.764
RP	2.511	.398
TA	1.454	.688

Source: Own computation result based on survey data (2024)

As it can be seen from above table 4.4, the tolerance value is greater than 0.10 and the value of VIF are less than 10 for all explanatory variables used in this study. This simply implies that, there is no multicollinearity problem among the study’s independent variables. Therefore, researcher can conclude that the assumption of the model was not violated in this study (See annex 5).

4.6.1.4. Test for normality

The last diagnostic test for CLRM assumption of normality assumption was tested by this study. The assumption says that disturbances are normally distributed. Frequency distributions come in many different shapes and sizes. It is quite important, therefore, to have some general descriptions for common types of distributions. If our variables follow a normal distribution the quintiles of our variables must be in line with the theoretical normal quintiles: a straight line on the Normal P-P plot tells us we have a normal distribution. If the data are normally distributed the data points will be close to the diagonal line (statistics.laerd.com). The next figure 4.3 shows the result of normality test with respect to the collected data (See annex 6).

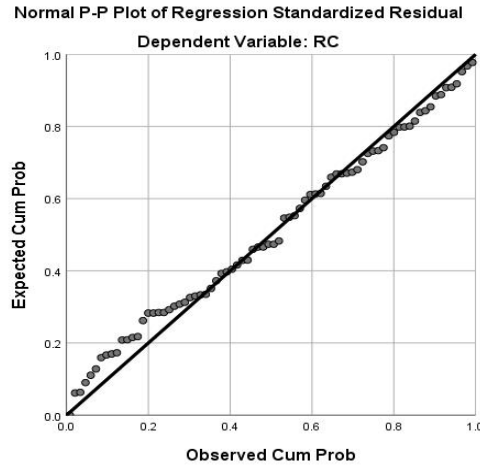


Figure 4.3: The result of normality test

Source: Own computation result based on survey data (2024)

4.7. Multiple Regression Results and Discussion

In this study, a multiple regression analysis was conducted to obtain the predictive value of the variables considered. This is mainly done to determine the linear combination of constructs. The dependent variable of the study is revenue collection performance (RC) and the independent variables are audit fiscal resources (TR), audit file selection (AC), auditor competence (CA), revenue protection system (RP) and tax automation (TA). .

$$RC_t = \beta_0 + \beta_1 TR_t + \beta_2 AC_t + \beta_3 CA_t + \beta_4 RP_t + \beta_5 TA_t + \epsilon$$

Table 4.5: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			
						F Change	df1	df2	Sig. F Change
1	.845 ^a	.915	.886	.29151	.915	25.042	5	70	.000

a. Explanatory variables: (Constant), TA, TR, AC, CA, RP
b. Explained Variable: RC

Source: Own computation result based on survey data (2024)

The above table 4.5 of the model summary of the study shows that the explanatory power of independent variables such as audit tax resources, capacity of the auditors, audit case selection, protection of revenue and tax automation, on the change in dependent variable (revenue collection performance) was explained 91.5%. The result of R-square (R^2) shows that change on dependent variable (RC) was explained 91.5% by the independent variables employed in the study. Therefore, the remaining 8.5% of change on regressed variable (RC) was explained by other variables which are not excluded in the model. The null hypothesis of F-statistic (the overall test of significance) which says the R-square (R^2) is equal to zero was rejected at 1% significance level. F-value of 0.000 shows strong numerical significance which improved the reliability and validity of the model (See annex 7).

Table 4.6: Result of regression coefficients

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.105	.492		2.246	.028
	TR	.145	.070	.152	2.062	.043
	AC	.140	.079	.148	1.765	.082
	CA	.162	.064	.186	2.544	.013
	RP	.341	.097	.356	3.523	.001
	TA	.126	.077	.126	1.642	.105

a. Explained Variable: RC

Source: Own computation result based on survey data (2024)

The regression model output presented in above table 4.6 shows the coefficients, standard errors, t-values, and p-values for explanatory variables. Hence, the model equation output is:-

$$RC = 1.105 + 0.145(TR) + 0.140(AC) + 0.162(CA) + 0.140(AC) + 0.341(RP) + 0.126(TA)$$

The outcome of regression result shows that the variable audit tax resources have a positive relationship with revenue collection performance at KWZ revenue office (See also Annex 8). The result of regression out implies that a 1 unit increase in tax audit resources causes revenue collection performance to increase by 14.5% and statically significant at a 5 percent significance level. The implication of the positive relationship between the variables is an indication that; KWZ revenue office does fulfill the questions provided under audit tax

resources. The questions were included are; whether there is enough audit staff to perform audit programs in the office, enough resource materials, experienced and qualified audit staff, and necessary training to improve the capability of the auditors. So, the result of the data collected from respondents implies that the KWZ revenue office has enough audit tax resources to perform the audit activities.

The result of the study also reveals that an audit case selection at KWZ revenue office found positively and statically affects revenue collection performance. The result of regression out reveals that 1 unit increase in audit case selection causes revenue collection performance to increase by 14 percent and statically significant at a 10 percent significance level. This implies that; the more the office focus on audit case selection the more the revenue will collect. So, it is possible to understand that; KWZ revenue office is performing its audit case selection in line with the questions provided under the variable of the study.

Furthermore, an auditors' capacity found positively correlated with the revenue collection performance of the office. The result of regression out reveals that 1 unit increase in auditors' capability causes revenue collection performance to increase by 16.2 percent and statically significant at 1 percent significance level. Since auditor's capacity was measured by auditors' skill, frequency of training given, and ability to understand the audit manual; the more auditors capacity the more revenue collection performance.

Moreover, the outcome of the study expresses that the revenue protection system is positively affects revenue collection routine and statistically important. The result of regression result similarly implies that 1 unit increase in revenue protection system causes the revenue collection performance to increase by 34.1 percent and statistically significant at a 1 percent significance level.

Furthermore, the result of the study shows that tax automation has a positive effect on revenue collection performance and it is not statistically significant. This result is also consistent with the result of Abinet (2016) which states that the significance level value (p-value) associated with "t" is 0.34 and becomes 0.17 when we divide by 2 for a one-tailed test. This shows that the "p" value is greater than 0.05, which statistically means that there is no significance of tax automation. The regression output shows that a one-unit increase in tax automation results in a 12.6% increase in revenue collection performance and it is not statistically significant even at a significance level of

10%. The implication behind the positive relationship between revenue collection performance and tax automation is that; increasing the level of tax automation (upgraded revenue collection software, another type of revenue collection application) accelerates the overall quality of office service and reduces the cost of compliance.

Table 4.7: Summary of Predictable sign and actual result of variables used in the study

Independent Variables	Predictable sign effect	Actual effect	Hypothesis Status
Tax audit resource	+ve & significant	+ve & significant	Accepted
Audit case selection	+ve & significant	+ve & significant	Accepted
Capacity of auditors	+ve & significant	+ve & significant	Accepted
Revenue protection system	+ve & significant	+ve & significant	Accepted
Tax automation	+ve & significant	+ve & significant	Accepted

Source: Compiled by a researcher based on a finding of the study (2024).

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

In previous chapter, the collected data were analyzed by using Statistical Package for Social Science (SPSS) Version 20 application program. Thus, the summary of major findings obtained in the study was presented in the first section of this chapter. Then, the conclusions were drawn based on summary of major results of the study. Then after, centered on the conclusions drawn, the recommendations were forwarded to the concerned body.

5.2. Summary

This study is conducted to assess the impact of tax audit on revenue collection; evidence from Kellem Wollega Zone revenue office in Oromia regional State by incorporating five major variables measured as proxy to the tax audit. The study was conducted through primary and secondary data conducted from KWZ revenue office and the secondary data collected was covers 6 years observation (2018-2023 G.C).

The study adopted an explanatory research design and a mixed research approach. To assess the effect size of each variable, several tests were conducted. First, a multicollinearity test was checked via VIF to see if there was collinearity between the variables. Then, other tests (such as autocorrelation, normality, heteroscedasticity, and linearity tests) were run and proved that a model is feasible for further analysis of the study.

To analyze the descriptive statistics, the researcher used the mean, maximum, minimum, and standard deviation of all variables. Furthermore, the researcher discussed the regression analysis to determine the effect of independent variables on the dependent variable. Therefore, in accordance with the specific objective of the study, the researcher came to the following conclusion. The results of the study show that income collection is positively correlated with the variables included in the study. Therefore, the following sections summarize the results for each variable.

The results of the multiple linear regression model show that the source variable of tax audit (measured by the number of employees, the availability of audit materials, the experience and

qualifications of auditors, and the engagement of auditors) has a positive effect on revenue collection and is statistically significant at the 5% significance level. On the other hand, the capacity of the auditor (measured by the competence of the auditor, the capacity of the auditor, the frequency of audit training, and the quality of audit manuals) has a positive effect on revenue collection performance and is statistically significant even at the 1% significance level.

The revenue protection system variable (which is measured by the confidentiality of tax audits and the legal framework of audit activities) has a positive and significant effect on revenue collection performance. The result of the regression analysis shows that the revenue protection system has a positive and statistically significant effect at the 1% significance level. In addition, the selection of audit cases (which is measured by the level of responsibility of team leaders and the frequency of audit activities) has a positive effect on revenue collection and is statistically significant at the 10% significance level. Finally, the result of the multiple linear regression models implies that tax automation (upgraded revenue collection software, different types of revenue collection applications) has a positive effect on revenue collection and is not statistically significant even at the 10% significance level at the KWZ entrance office.

5.3. Conclusion

The descriptive as well as inferential analysis summary results presented under the above subsection had enabled the researcher to draw the following conclusions.

Taxation is the main source of revenue for the Ethiopian government, followed by loans and foreign aid. In addition, taxation is used to allocate economic resources to government priorities by directing economic agents towards the government's planned development objectives through incentive programs integrated into existing tax laws. The responsibility for revenue collection in Ethiopia is vested in the Oromia Regional Revenue Office, one of whose offices is located in the KWZ Revenue Office.

The potential amount of tax revenue that can be collected from the target taxpayer and the possibility of recovering fraudulent tax refunds is the secondary objective of the tax administration and is also considered when conducting an audit. In addition, the case selection decision is based on information from SIGTAS, taxpayer history, third parties such as banks and informants, and the intelligence team. However, the use of SIGTAS does not provide a reliable decision to ensure

appropriate risk selection due to the lack of well-organized and clean data. In addition, there is no specified time frame in which taxpayers are expected to submit their data. After the data was collected, the audit files were selected using the previous file selection system (random selection) and the automated risk assessment system simultaneously. The automated tax reporting system has been partially implemented. However, a compliance approach, in the form of a risk-based audit program, is not yet in place and the audit functionality of SIGTAS has not been fully utilized for risk assessment.

Finally, tax audit basically has an effect on revenue collection according to ANOVA analysis and model analysis on the mentioned variable related to revenue collection. This clearly shows that tax audit affects the revenue collection performance in the study area. This means that the more tax audits are conducted, the more revenue is collected. From the results of the above study, the researcher can conclude that tax audit was found to be the significant variable affecting the revenue collection performance in Kellelem Wollega Zonal Revenue Office, Oromia Regional State, Ethiopia.

5.4. Recommendations

Based on the findings and conclusions drawn from the previous sections, the following recommendations have been forwarded to the relevant agency to improve the tax revenue collection systems of the KWZ Revenue Office for all tax payers with tax rules and regulations to achieve the targeted revenue collection plan by the government in general and the KWZ Revenue Office in particular.

- ✓ The management of the KWZ revenue office should improve tax audit resources by increasing the number of audit staff, material resources, qualification and experience of auditors, skills of auditors and the engagement of individual auditors in audit activities.
- ✓ The KWZ Agency Office should provide continuous training to taxpayers to make them aware of their rights and obligations in order to build and develop a better partnership with them and also to create citizens who understand better taxation, which will cause honest and voluntary compliance. . This means that, in order to increase the level of awareness of the KWZ revenue office, special attention should be paid to educating communities and taxpayers through various techniques, such as the media, preparing brochures and face-to-face discussions with professional associations.

- ✓ To carry out an effective audit at the lowest cost and with the least possible risk, the audit files must be selected according to the risk criteria, taking into account the concept of materiality according to which elements of little importance, which do not influence the judgment or the behavior of a reasonable user, does not require investigation by the auditor.
- ✓ The management of the KWZ revenue office was suggested to use the sample when conducting the audit, as it is more effective than testing 100% of the population. In tax audits, a representative sample can save both parties time and money. For the best results, an audit must focus on target risks, be technically and procedurally performed, comprehensively and accurately referenced, and the audit schedule must also be completed on time.
- ✓ Again, the management of the KWZ Revenue Office is expected to improve the overall system of revenue protection by introducing different types of technologies such as the expansion of the Integrated Government Tax Administration System (SIGTAS), the cash register, the use of the electronic system. to pay taxes by raising awareness and promoting the system to enhance the revenue collection performance of the office.
- ✓ To ensure that the adoption of tax automation translates into increased revenue collection performance, the government in general and the KWZ Revenue Office in particular should implement an effective ICT infrastructure in the country and also in the area to enable easier access to the automated revenue collection systems of the clients. .
- ✓ The KWZ Revenue Office should increase the number and improve the total resource capacity of the audit staff to achieve the required audit rate and audit quality that can improve the overall revenue collection performance of the KWZ Revenue Office.
- ✓ Finally, the government in general and the Oromia Revenue Office in particular should also provide sufficient computers and other necessary audit resources for the auditors of the KWZ Revenue Office.

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QUESTIONNAIRES
DAMBI DOLLO UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

Dear respondent, I am attending Master's Program at Dambi Dollo University. Right now I am conducting a research on the title **“Effects of Tax Audit on Tax Revenue Collection in Kellem Wollega Zone Revenue Office.** Thus, this questionnaire is prepared with the intention to gather information on the “Effects of Tax Audit on Tax Revenue Collection in Kellem Wollega Zone Revenue Office”. The information you provide will be valuable for the success of the research project. Please, be honest and objective while filling the questionnaire. Your genuine response to the following questions would have a crucial importance to the results of the study. The information you provide is only used for academic purpose and will kept confidential. Therefore, you are kindly requested to give accurate information.

General Instruction for enumerators /data collectors

- ✓ Make brief introduction to each respondent before starting the interview, get introduced to the respondents, (greet them in the local way) get his/ her name, tell them the purpose and objective of your study.
- ✓ Please, ask each question so clearly and patiently until the respondent understands.
- ✓ Please, fill up the interview schedule according to the respondent's reply (do not put your own opinion).
- ✓ Please, do not try to use technical terms while discussing with respondents and do not forget to use/record the local unit.
- ✓ During the process put the answers of each respondent both on the space provided and encircle the choice.
- ✓ At the end prove that, all questions are asked & the interview schedule format is properly completed.

Thank you for your cooperation!

1. Tax audit resources questions

No.	Questions regarding tax audit resources	Five-Point Likert Scale				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		5	4	3	2	1
1	Kellem Wollega Zone Revenue Office has enough audit staff to perform auditing to all selecting taxpayers'					
2	Does Kellem Wollega Zone Revenue Office have enough Audit resource materials for Audit program?					
3	Kellem Wollega Zone Revenue Office has enough qualified and experienced audit staff to perform tax audit program					
4	Does Kellem Wollega Zone Revenue Office perform a continuous assessment to Improve the capability of auditors and staff resources?					
5	An individual auditor averagely accomplished audit cases assigned a year					

2. Audit case selection methods questions

No.	Questions regarding audit case selection methods	Five-Point Likert Scale				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		5	4	3	2	1
1	Does the tax audit department have responsible audit team for selecting the audit cases?					
2	Does tax audit case selection is supported by Intelligence Input?					
3	Does every tax payers at Kellem Wollega Zone Revenue Office audited once in a year?					
4	Audit case selection is based on the availability of resource for tax audit					
5	Audit case selection is based on taxpayer's high tax Potential					

3. Capacity of tax auditor's questions

No.	Questions related to capacity of tax auditors	Five-Point Likert Scale				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		5	4	3	2	1
1	Appropriate and skilled officers are assigned during tax Audit.					
2	Tax audit manual enhance your capacity during audit					
3	Tax auditors take sufficient training on audit in different business sectors					
4	The audit manual provides adequate assurance for quality Standards.					
5	Auditors have the capacity of analyzing the financial Statement.					

4. Revenue protection system questions

No	Questions concerning Revenue protection system	Five-Point Likert Scale				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		5	4	3	2	1
1	Confidentiality of tax audit is provided for the audit manual and improve revenue collection					
2	The Legal Framework empowers auditors to have access to taxpayers, records and third party information					
3	The audit manual protects the rights of both the tax authority and the taxpayer					
4	The audit manual provides adequate assurance for quality standards					
5	The tax audit manual is widely used by tax auditors of Kellem Wollega Zone Revenue Office.					

5. Tax Automation Questions

No	Questions related to Tax Automation	Five-Point Likert Scale				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		5	4	3	2	1
1	The application of tax automation improve revenue Collection					
2	Applying tax automation decreases tax compliance					
3	The educational level of existing auditors is enough to deal with tax automation software					
4	Applying tax automation increases service quality					
5	Applying tax automation improve professional Background					

SPSS OUTPUT

Annex 1: The respondents' response rate

Targeted Respondents'	Questionnaires Distributed	Questionnaires Returned	Response Rate (%)
Tax auditors in Kellem Wollega Zone revenue office	31	31	100%
Total		31	100%

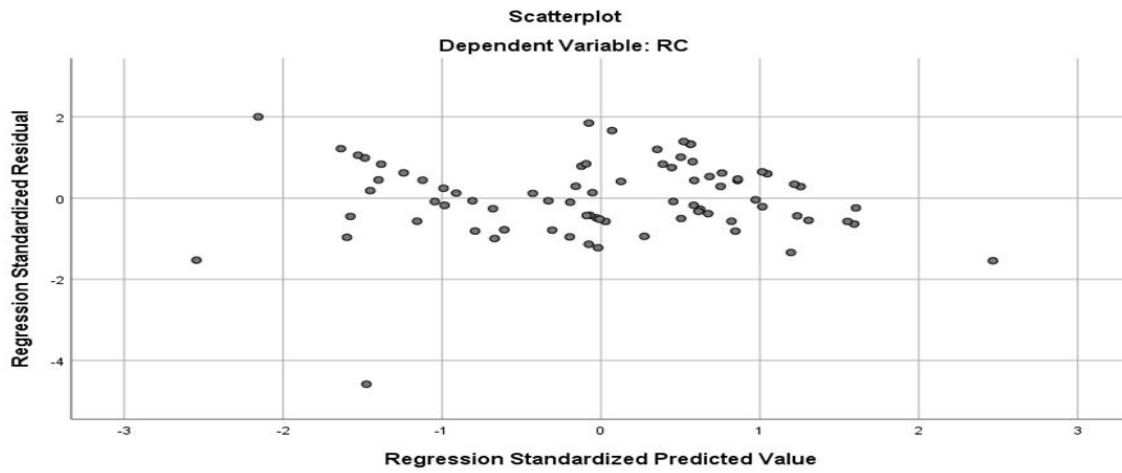
Annex 2: Descriptive Statistics Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
TR	31	2.20	4.60	3.4974	.54772
AC	31	2.20	4.80	3.4564	.55070
CA	31	1.80	4.80	3.4744	.59531
RP	31	2.40	4.80	3.6641	.54367
TA	31	2.00	4.40	3.4026	.52023
RC	31	2.38	5.00	4.3650	.52030
Valid N (listwise)	31				

Annex 3: Correlation of variables results

	Correlations	TR	AC	CA	RP	TA	RC
TR	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	31					
AC	Pearson Correlation	.228*	1				
	Sig. (2-tailed)	.045					
	N	31	31				
CA	Pearson Correlation	.134	.157	1			
	Sig. (2-tailed)	.243	.171				
	N	31	31	31			
RP	Pearson Correlation	.427**	.630**	.316**	1		
	Sig. (2-tailed)	.000	.000	.005			
	N	31	31	31	31		
TA	Pearson Correlation	.367**	.346**	.357**	.400**	1	
	Sig. (2-tailed)	.001	.002	.001	.000		
	N	31	31	31	31	31	
RC	Pearson Correlation	.458**	.535**	.464**	.718**	.532**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	31	31	31	31	31	31

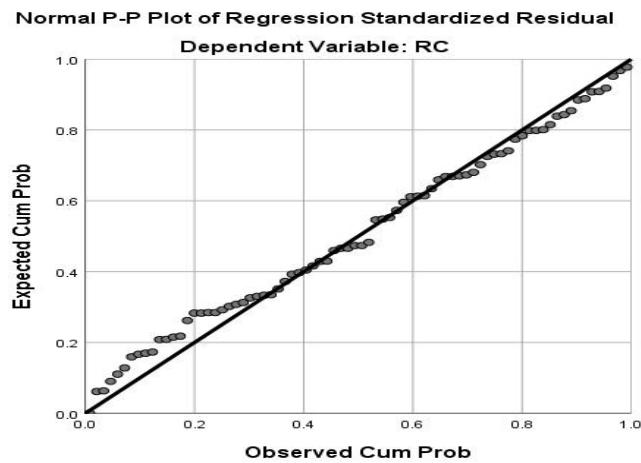
Annex 4: Heteroscedasticity test Results



Annex 5: Multicollinearity test Results

		Tolerance	VIF
	TR	.748	1.337
	AC	.580	1.723
	CA	.764	1.308
	RP	.398	2.511
	TA	.688	1.454

Annex 6: Normality test results



Annex 7: The model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			
						F Change	df1	df2	Sig. F Change
						25.042	7	70	.000
1	.845 ^a	.915	.886	.29151	.915				

a. Predictors: (Constant), TA, TR, AC, CA, RP

b. Dependent Variable: RC

Annex 8: Multiple Linear Regression Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.105	.492		2.246	.028
	TR	.145	.070	.152	2.062	.043
	AC	.140	.079	.148	1.765	.082
	CA	.162	.064	.186	2.544	.013
	RP	.341	.097	.356	3.523	.001
	TA	.126	.077	.126	1.642	.105

a. Dependent Variable: RC