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Assessment of Factors Affecting Tax Audit Effectiveness in Ethiopia: Empirical Evidence from South Gondar Zone Revenue Offices

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This study was carried out to investigate factors affecting tax audit effectiveness in Ethiopia particularly in South Gondar Zone to achieve its aim of getting the right amount of tax revenues at the right time from the right taxpayers. The research has relied on primary data collected from category "A" and "B" tax payers by using questionnaires. The population of the study was tax auditors and tax officers (such as tax assessment and collection, taxpayers 'education, job process owners and head of the revenue administration office). The response obtained from 105 respondents (75%) response rate was used for the analysis. To achieve the above objectives, the study used binary Logit model to evaluate the relationship among the variables. The result indicated that audit case selection, audit experience and types of audit performed are found to have statistically significant positive effects on the tax audit effectiveness in South Gondar zone revenue office. On the other hand, occupation of auditor, audit resource, rate of tax audit performed, field of study and age of the auditors are identified to have statistically significant negative effects on tax audit effectiveness in South Gondar zone revenue office. Finally the study had for- warded suggestions for the tax authority to further strengthen audit case selection, audit experience and types of audit performed.

Key words: 1. Audit Effectiveness **2.** Factors Affecting Tax Audit **3.** Audit Effectiveness in Ethiopia,Assessment of Factors Affecting Tax Audit.

Introduction

Taxes are important sources of public revenues, on the burdens of the people imposed by the legislative power of the state upon persons or property to raise money/revenue to government expenditures. Coming particularly to the case of our country Ethiopia, Ethiopia's tax laws are basically originated from three sources such as legislative, administrative and judicial sources to deal with the different type of taxes in the country with their administration. As evidence of this the federal democratic republic of Ethiopian constitution in its article 51 states that the levying of taxes and the collection of duties on revenue source is among the duties of the government (Proclamation No. 1/1995). Tax audit is a core function in tax administration procedure and is essential to the tax administration authority to perform their task of monitoring tax compliance and to collect the total tax liabilities to the government(Olaoye&Ogundipe, 2018). Moreover, tax audit component of tax administration procedure is implemented by the tax authorities for different purposes from such purpose the first one is to ensure that the books of accounts and other records are properly maintained or not, secondly, to ensure are the income of the taxpayers and their claims for deductions are correctly made or not, thirdly, helps to checking fraudulent practices in the taxpayers and finally it helps to the proper administration of tax revenues (Mirera N. D, 2014).

Therefore, an effective tax audit program leads to the discovery of undeclared tax liabilities of the taxpayers either by omission, error, or intentional understatements of taxable incomes and it will assist the government to increase voluntary tax payers and it will encourage the tax administration goals of getting the right amount of tax at the right time from its taxpayers to cover current and capital expenditures (Mihret G. 2011).

In most developed countries in the world like united states of America and United Kingdom numerous empirical studies has been conducted to investigate what are the factors affecting the effectiveness of tax audit to increase taxpayers voluntary compliance, but the empirical studies conducted in developing countries is still limited for instance in Ethiopia, especially in south Gondar zone revenue office as far as the researchers knowledge this study is limited to investigate factors affecting tax audit effectiveness to increase governments revenue through increasing taxpayers compliance behavior (Drogalas G. etal. 2015).

In addition to this currently the government of Ethiopia not adequately collect overall potential tax revenues and taxpayers in the country not voluntarily comply

their tax liabilities (Kothari, C.R.2004). As a result, by considering these theoretical and empirical gaps we were interested to investigate what are the factors affecting the effectiveness of tax audit in Ethiopia, in the case of south Gondar zone, to increase governments overall tax revenues as a result of increasing taxpayers voluntary tax compliance behavior, by identifying rate of tax audit performed(RTAP), adequate tax audit resources(ATAR), audit case selection methods(ACSM), auditee attributes(AAT), tax audit quality (TAQL) and management support (MS)as a factors affecting tax audit effectiveness.

Objectives of the Study

- To identify the list factors affecting the effectiveness of tax audit program performed by authorized parties.
- To assess the tax auditors perception on the tax audit effectiveness.

Hypothesis of the Study

From the theoretical literatures perspective, for effective tax audit program successful audit case selection methodology is a critical issue to identify or select appropriate audit candidates in order to achieve tax audit program objectives. Therefore, researchers in this study develop HP1: - as of the following;

HP1: -successful audit case selection methodology is expected positively related to the tax audit effectiveness in Ethiopia

Tax audit with high levels of management and employees support in the audited organization is essential for the successfulness of tax audit conducted by the authorized parties, because managements and employees support in the audited organization indicates the acceptance of tax audit findings in their organization and taking responsibilities for the improvement of voluntary tax compliance behavior. Therefore, researchers in this study develop HP2: - as of the following;

HP2:-high level of management support in the audited organization is expected positively related to the tax audit effectiveness in Ethiopia

In this study auditee attributes or taxpayer's characteristics also considered as affecter affecting the successfulness of tax audit, because, the entire tax audit program is based upon taxpayers books and records. The tax payers verbal and any written statement submitted to the tax auditor during the program is vital to provide essential information's on the tax liability declarations of the auditee. Different theoretical and empirical literatures also supported that the taxpayer's knowledge of the tax law is necessary for future voluntary tax compliance.Therefore, researchers in this study develop HP3: - as of the following;

HP3: -taxpayer's knowledge of the tax law is expected positively related to the tax audit effectiveness in Ethiopia

In tax audit program the tax auditors have a primary responsibility to achieve the general objective of tax audit program, because, tax auditors are the only who has the opportunity to investigate or to look at taxpayers book of records, observe the

report/declarations of their tax liabilities, interview the tax payers face to face about their taxable income and tax deductible expense declaration and educate the taxpayers how they become to voluntary tax compliant. Therefore, researchers in this study develop HP4:- as of the following;

HP4:-adequate tax audit resources/tax audit staff in relation to international standard is expected positively related to the tax audit effectiveness in Ethiopia

Lastly in this study the researchers also identified rate of tax audit performed/ frequency of tax audit performed as a factor affecting the effectiveness of tax audit program, because high frequency of tax audit may consider as formal follow up as an integral part of the audit function. The public accountant committee specifically authorized tax audit committee should check that the entity officials take action to correct all errors found and incorporate all recommendations by the respected tax auditors.Therefore, researchers in this study develop HP5:- as of the following;

HP5:-conducting high rate of tax audit performed/ high frequency of tax audit performed is expected positively related to the tax audit effectiveness in Ethiopia.

In this study tax audit quality can be defined as the task of tax auditing program in the tax administration system has been performed based on general accepted tax auditing standards. Conducting tax audit program in the tax administration system based on general accepted tax auditing standards makes the tax auditing task is effective as expected to increase governments potential tax revenue. Therefore, researchers in this study develop HP6:- as of the following;

HP6:-conducting tax audit with high tax audit quality is expected positively related to the tax audit effectiveness in Ethiopia.

1. Methodology

Background of the Study Area

The study was conducted in south Gondar Zone which is found in Amhara National Regional State which is 625.04km away from Addis Ababa the capital city of Ethiopia. This zone is named for the city of Gondar, which was the capital of Ethiopia until the mid-19th century and has often been used as a name for the local province.

2. Target Population

The target population for the study comprised of tax officials who have direct relation with the tax audit practice. Accordingly, the participants for the study were tax auditors and tax officers (such as tax assessment and collection, taxpayers 'education,job process owners and head of the revenue administration office). Therefore, the target groups for the study were 140 comprised of 32 tax auditors, 40 assessment and collection officer, 38taxpayers' education officers and a total of 30 job process owners and head of the revenue administration officefound in the 11 districts and 4 town administrations. To achieve the

objective of the study the researchers used Census method to select the survey respondents.

3. **Source of Data**

Primary Data Sources

Primary data were obtained directly from revenue office tax auditor, head of divisions, Group leaders and Officers members of each district in the zone. Therefore, the study used questionnaire and FGD to collect all required information for further analysis from the registered taxpayers. In order to avoid direct implication of "wrong doing" by the respondents in this study the researchers used an indirectly phrased questions.

4. **Model Specification**

This section of the study manly focuses on the identifications of models was used to determine factors affecting tax audit effectiveness. Since the study usedlimited dependent variable, the appropriate method of estimation is the maximum likelihood estimation method rather than ordinary list squire estimation method. Therefore, to examine the factors that affect the probability of tax audit is being effective; a binary logit model was estimated.

Therefore, according to Gujarati (2004) and Wooldridge (2003), the logit model can be specified as;

$P_i = E(y=1/x_i) = F(\beta 0 + \beta 1 x 1_i + \beta_k x_{ki} \text{ ----- } + u_i)$

$$= \frac{1}{1 + e^{-}(\beta 0 + \beta 1 x 1 i + \beta k x k i - - - - - + u i)}$$

$$= \frac{1}{1+e^{-zi}}$$

Where $z_i = \beta 0 + \beta 1 x 1_i + \beta_k x_{ki}$ ----- $+ u_i$

$= \frac{e^{zi}}{1+e^{zi}}$--------- the cumulative logistic distribution function.

The estimation of the model is, first the probability of tax audit is not effective is given by:

$$1\text{-}P_i = \frac{1}{1+e^{zi}}$$

And the odds ratio which tells the ratio of the probability of the tax audit is being effective to the probability of the tax audit is not effective can be written as

$$\frac{Pi}{1-Pi} = \frac{1+e^{zi}}{1+e^{-zi}} = e^{zi}$$

As a result

For estimation, logistic function can be written in the odds ratio as

$$Li=\ln\left(\frac{Pi}{1-Pi}\right)= zi= \beta 0+ \beta 1x1_i + \beta_k x_{ki} \text{ ----- } + u_i$$

Where, L_i, is the log of the odds ratio.

Therefore, the functional form of the model for this study written as follows;

$$P_i(y=1) = \beta_0+ \beta_1 RTAP_i + \beta_2 ATAR_i + \beta_3 ACSM_i+ \beta_4 AAT_i+ \beta_5 TAQN_i+ \beta_6 TAQL_i+ \beta_7 MS_i+ u_i$$

5. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
taxaudeffe~s	105	.5904762	.4941044	0	1
AUQUAL	105	.4190476	.4957696	0	1
MGTSUP	105	.5333333	.5012804	0	1
AUCASES	105	.5428571	.5005491	0	1
AURESO	105	.5142857	.502193	0	1
AUATT	105	.4952381	.5023753	0	1
RATAUPER	105	.5333333	.5012804	0	1
Gender	105	.647619	.4800031	0	1
Age	105	2.038095	.7711606	1	3
EDU	105	3.333333	.4736655	3	4
FOStudy	105	1.885714	.8695079	1	3
Exp	105	.7238095	.4492566	0	1
OCC	105	3.371429	1.851492	1	6
AUTYPE	105	4.371429	2.321543	1	9

in this study tax audit effectiveness is measured in terms of tracking of tax violation, non-compliance detection and additional revenue and each item of tax audit effectiveness will be measured on a 5-point Likert scale ranging from (1) 'strongly agree' to(5) 'strongly disagree'.Therefore, as of the descriptive statistics result in table 4.8 above approximately 59% mean value for tax audit effectiveness indicating that averagely 59% of the overall tax audit were effectively conducted with 49.4% variability of tax audit effectiveness in south Gondar zone revenue authority.

From the table above, we can observe that on average 53.3% of the overall tax audit conducted in south Gondar zone supported by the top level management to make they were effective with 50.1%variability of management support in the tax auditing program in the study area. As of the descriptive statistics result in table 4.2 above approximately 41%mean value for audit quality indicating that averagely 41% of the overall tax auditin south Gondar zone were conducted in the principle of audit quality to make the tax audit is effective with 49.6% variability of audit quality in the tax auditing program in south Gondar zone revenue authority.As of the descriptive statistics result in table 4.2 above approximately

54.3% mean value for audit case selection indicating that averagely 54.3%of the overall tax auditin south Gondar zone were conducted in the principle of audit case selection to make the tax audit is effective with 50.1% variability of audit case selection in the tax auditing program in south Gondar zone revenue authority.

From the table above,approximately 53.3%mean value for rate of tax audit performed indicating that averagely 53.3%of the overall tax auditin south Gondar zone were conducted in the principle of high rate of tax audit performed to make the tax audit is effective with 50% variability of rate of tax audit performed in the tax auditing program in the study area. As of the descriptive statistics result in table 4.8above approximately 49.5%mean value for auditee attribute indicating that averagely 49.5%of the overall tax auditin south Gondar zone were conducted in the principle of a good auditee attributeto make the tax audit is effective with 50% variability of audit case selection in the tax auditing program in south Gondar zone revenue authority.

6. Correlation Analysis

	taxaud~s	AUQUAL	MGTSUP	AUCASES	AURESO	AUATT	RATAUPER
taxaudeffe~s	1.0000						
AUQUAL	-0.0385	1.0000					
MGTSUP	-0.1191	0.1754	1.0000				
AUCASES	-0.1811	0.2369	0.2912	1.0000			
AURESO	0.0044	0.2074	0.0840	0.1027	1.0000		
AUATT	-0.1435	0.0081	0.1247	0.1442	0.2385	1.0000	
RATAUPER	0.1527	0.0593	0.0051	0.1380	0.1604	0.0102	1.0000
Gender	-0.0873	-0.1412	-0.0107	0.0435	0.0410	-0.1067	0.1492
Age	0.0161	-0.0673	-0.1526	-0.0292	-0.0759	-0.0740	0.0216
EDU	0.0548	-0.0682	0.0135	0.1622	-0.0000	-0.0539	-0.0675
FOStudy	-0.1324	-0.0217	-0.0132	-0.0107	0.0919	-0.2874	-0.0794
Exp	0.0487	-0.0366	-0.1936	-0.1820	-0.0037	-0.0272	-0.1509
OCC	-0.0423	0.0174	-0.0912	-0.0640	-0.0937	-0.2617	-0.1637
AUTYPE	0.1003	-0.0864	-0.2710	-0.1504	0.1562	0.1623	-0.0644

	Gender	Age	EDU	FOStudy	Exp	OCC	AUTYPE
Gender	1.0000						
Age	-0.1972	1.0000					
EDU	-0.2819	0.4651	1.0000				
FOStudy	-0.1435	0.0783	0.1167	1.0000			
Exp	-0.1435	0.1139	0.0753	0.1400	1.0000		
OCC	0.0730	0.1247	-0.0987	0.1401	0.0320	1.0000	
AUTYPE	0.0237	-0.0080	-0.0874	-0.0121	0.2192	0.0168	1.0000

As table 4.4 indicated above audit case selection, audit quality, management support, auditee attribute, gender, field of study and occupations are negatively correlated (-0.03,-0.11,-0.18,-0.08,-0.13 and -0.04) with the dependent variable of tax audit effectiveness respectively. Whereas the remaining variables in this study has positive leaner relationship with the dependent variable of tax audit

effectiveness. Finally, the correlation analyses among the independent variables were discussed in the classical linear regression model assumptions of multicollinearity problem test.

Model specification tests

```
Iteration 0:   log likelihood =  -57.63181
Iteration 1:   log likelihood = -49.736539
Iteration 2:   log likelihood = -48.972498
Iteration 3:   log likelihood = -48.922363
Iteration 4:   log likelihood = -48.922266
Iteration 5:   log likelihood = -48.922266

Logistic regression                             Number of obs   =        105
                                                LR chi2(2)      =      17.42
                                                Prob > chi2     =     0.0002
Log likelihood = -48.922266                     Pseudo R2       =     0.1511
```

taxaudeffectiveness	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
_hat	.8270712	.4106124	2.01	0.044	.0222856	1.631857
_hatsq	.1040737	.1981121	0.53	0.599	-.284219	.4923663
_cons	-.0150264	.366392	-0.04	0.967	-.7331415	.7030887

Source: - STATA version 13 output

As presented above, the STATA version 13 output reveals that our regression model is correctly specified, since the coefficient of the predicted dependent variable (_hat) is statistically significant and the coefficient of the predicted dependent variable square (_hatsq) is statistically insignificant. Therefore, the **link test** accepts the Null hypothesis that the model is correctly specified.

Test for Normality Assumption

Shapiro-Wilk W test for normal data

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Shapiro-Wilk W test for normal data
```

Variable	Obs	W	V	z	Prob>z
residual	105	0.98597	1.207	0.418	0.33810

Source: STATA 13 output

The result of this Shapiro-Wilk W test shows that Prob>z = 0.33810 which is statistically insignificant, indicating that the null hypothesis was not to be rejected, confirming that the residual was normally distributed.

Test for Multi collinearity Assumption

Variable	VIF	1/VIF
AUCASES	1.75	0.572460
AUATT	1.66	0.600811
AUQUAL	1.64	0.608048
MGTSUP	1.50	0.664594
EDU	1.47	0.678549
AURESO	1.41	0.707829
Age	1.38	0.724677
RATAUPER	1.25	0.796961
Exp	1.25	0.797811
FOStudy	1.23	0.815321
AUTYPE	1.19	0.843345
Gender	1.18	0.849396
OCC	1.17	0.854691
Mean VIF	1.39	

Source: STATA 13 output

According to the result of vif test above, all explanatory variables included in the regression model are not perfectly linearly related. Therefore, the result suggesting that no multicollinearity problem in the model (i.e. explanatory variables are not perfectly linearly correlated with one another).

Heteroscedasticity Test (Equal Variance of u_i)

Cameron & Trivedi's decomposition of IM-test

Source	chi2	df	p
Heteroskedasticity	97.25	101	0.5872
Skewness	11.19	13	0.5947
Kurtosis	2.11	1	0.1460
Total	110.55	115	0.5999

Source: STATA 13 output

The result of this Cameron &Trivedi's decomposition of IM-test shows that Prob= 0.5999 which is statistically insignificant indicating that there is equal variance of u_i, supporting the Null hypothesis of the test. So in this case, the evidence is accepting the null hypothesis that the variance is homogeneous.

7. Regression Analysis and Discussion

The Marginal Effect Result

```
Marginal effects after logit
      y  = Pr(taxaudeffectiveness) (predict)
         =  .80266357
```

variable	dy/dx	Std. Err.	z	P>|z|	[95% C.I.]		X
AUQUAL	-.0286469	.08245	-0.35	0.728	-.190241	.132947	2.47429
MGTSUP	.0249312	.06586	0.38	0.705	-.104153	.154015	2.56735
AURESO	-.1165774	.07339	-1.59	0.112	-.260418	.027263	2.51429
AUCASES	.0992953	.07938	1.25	0.211	-.056287	.254877	2.56327
AUATT	-.0063571	.07618	-0.08	0.933	-.155666	.142952	2.7881
RATAUPER	-.1070604	.05902	-1.81	0.070	-.222745	.008624	2.62993
Gender*	.0258469	.08872	0.29	0.771	-.148031	.199725	.647619
Age	-.0598165	.06099	-0.98	0.327	-.179347	.059714	2.0381
EDU	-.0680472	.09741	-0.70	0.485	-.258965	.122871	3.33333
FOStudy	-.0925027	.05128	-1.80	0.071	-.193005	.007999	1.88571
Exp*	.0823025	.11022	0.75	0.455	-.133718	.298323	.72381
OCC	-.0098143	.02404	-0.41	0.683	-.056939	.03731	3.37143
AUTYPE	-.024388	.01904	-1.28	0.200	-.061711	.012934	4.37143

(*) dy/dx is for discrete change of dummy variable from 0 to 1

8. Interpretation of the Marginal Effect

- **Field of study (FOStudy),**as indicated in table 4.12, auditors' field of study is found to have statistically significant negativeeffect on tax audit effectiveness in South Gondar zone of the Amhara region. Auditors' field of study is statistically significant with the expected negative sign. The negative sign of the coefficient of auditors field of study assures that auditors with the specialization/field/ of accounting mayhave more knowledge and awareness about tax audit effectiveness in south Gondar zone revenue office than auditors with the specialization/field/ of management and economics accordingly.The result is consistent with the theory and most of the findings. The marginal effect presented in table 4.12 above, also show tax audit effectiveness decreases by approximately 9.2% of marginal effect for the shift from accounting specialization to economics/managements specialization of the tax auditors, keeping other factors constant
- **Experience (EXP),**level of auditors experience in the tax audit is found the other important significant determinant of tax audit effectiveness in South Gondar zone. Auditing experience level of the tax auditors is statistically significant with the expected positive sign and which is highly supported by the theoretical literatures. The positive sign of the coefficient of this variable assures in south Gondar zone that auditors with more years of audit experience may have more technical and practical knowledge and awareness about how and in which real situation tax audit is conducted to make their audit is effective than those who have less years of audit experience. As the marginal effect estimates of Table 4.12 above shows that keeping other factors constant, a one year increase in the audit experience

of the auditor, increases the probability of tax audit being effective by 8.2 percent. Again, it's statistically significant at 10% level of significance.

- **Age,**in this study age of the tax auditors is also found as the other statistically significant factor at 5% level of significance. Ages of tax auditors in south Gondar zone negatively influencing the tax audit effectiveness. The negative sign of the coefficient of this variable assures in south Gondar zone that auditors with older years old (in comparison with those young auditors) may have less concentration to audit, may have high informal relationship with the audited firm and may have less interests to update themselves with current audit principles and standards issued by different authorized bodies about tax audit effectiveness. As presented in table 4.7, the marginal effect result show the shift from young to older years old could decrease tax audit effectiveness probability by approximately 5. 9% in south Gondar zone.
- **Occupation (OCC),**as indicated in table 4.12, auditor's occupation is found to have statistically significant negativeeffect on tax audit effectiveness in South Gondar zone of the Amhara region. Although respondents list of occupation without tax assessor don't have statistically significant effects /difference/ in terms of tax audit effectiveness relative to tax audit occupation of the respondent, therefore, being in the tax assessor occupation of respondent do have statistically significant negative effect/difference on the tax audit effectiveness in south Gondar zone. As presented in table 4.12 above, the marginal effect result show the shift from tax audit respondents occupation to tax assessor respondents occupation could decreases tax audit effectiveness probabilities by approximately 1.1 percent in south Gondar zone.
- **Audit type (AUTYP),**types of audit performed by auditors in the tax audit is found the other important significant determinant of tax audit effectiveness in South Gondar zone. Although respondents list types of audit performed without fraud audit don't have statistically significant effects /difference/ in terms of tax audit effectiveness relative to desk audit, therefore, being in the fraud audit types performed do have statistically significant positive effect/difference on the tax audit effectiveness in south Gondar zone.
- The positive sign of the coefficient of this variable assures in south Gondar zone that auditors with more involvement of fraud audit may have more concentration and expectation of more investigation to make their audit is effective than those who involves in desk audit in south Gondar zone. As presented in table 4.12 above, the marginal effect result show the shift from desk audit types performed to fraud audit types performed in the audit period could increases tax audit effectiveness probabilities by approximately 2.4 percent in south Gondar zone.
- **Audit case selection (AUCASES),**as indicated in table 4.12 above, in the audit period audit case selectionis found to have statistically significant

positiveeffect on tax audit effectiveness in South Gondar zone of the Amhara region. The positive sign of the coefficient of this audit case selection in the audit period assures in south Gondar zone that auditors with more cooperation with taxpayers helps them to get essential information necessary for performing an audit, helps tax auditors and investigators to have good access of information held by the taxpayers and having audit case selection program may leads to them to have more concentration and investigation to make their audit is effective, than simply conducting tax audit activities without the audit case selection procedures in south Gondar zone. The marginal effect presented in table 4.12 above, also show the probability of tax audit effectiveness improves by approximately 9.9 % of marginal effect, keeping the effect of other factors constant.

- **Rate of tax audit performed (RTAPER),**as indicated in table 4.12 above; in the audit period conducting high rate of tax audit performed is found to have statistically significant negative effect on tax audit effectiveness in South Gondar zone of the Amhara region, at 5% level of significance. The negative sign of the coefficient of this variable in the audit period assures in south Gondar zone that auditors increasing their rate of tax audit performed in one organization may have less interest to conduct effective tax audit than auditors with low rate of tax audit performed in south Gondar zone of Amhara region. The marginal effect presented in table 4.12 above, also show the probability of tax audit effectiveness decreases by approximately 10.7% of marginal effect, keeping the effect of other factors constant.
- **Audit resource (AURESO),**as indicated in table 4.12 above; in the audit period conducting audit resource is found to have statistically significant negative effect on tax audit effectiveness in South Gondar zone of the Amhara region, at 5% level of significance. The negative sign of the coefficient of this variable in the audit period assures in south Gondar zone that tax audit and administrative costs in the tax authority include salaries to accountants, tax auditors, tax collectors, computer, office equipment costs etc or in simple terms the total recurrent and capital cost to run the tax authority as a cost center may have a negative impact to conduct effective tax audit than minimum administrative cost of tax collection and tax audit in south Gondar zone of Amhara region. The marginal effect presented in table 4.7 above, also show the probability of tax audit effectiveness decreases by approximately 11.6% of marginal effect, keeping the effect of other factors constant.

9. Conclusion

As of different scholars' investigation in this area, a well-structured tax audit program is vital to achieve revenue objectives that ensure the fiscal health of the country, and sustain the health of the tax system by reducing tax gap through

voluntary compliance improvement and additional tax collections. Further, it might provide valuable support in identifying areas of the tax law that require clarification or addressing deficiencies in the law, and to influence compliance across the broader taxpayer community at all levels. Therefore, in line to previous empirical investigation undertaken in different parts of the world, this study stands to examine the significant factors affecting tax audit effectiveness in Ethiopia (the case of south Gondar zone, Amhara region). Because of the nature of the data Binary logit regression model was used in order to assess the effect of the identified explanatory variables on the tax audit effectiveness in south Gondar zone of Amhara region.

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