**FACTORS AFFECTING TAX AUDIT EFFECTIVENESS IN KENYA REVENUE AUTHORITY - SOUTH RIFT VALLEY REGION**

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# ABSTRACT

Ineffective tax audit has been considered as one of the many reasons behind non-compliance to tax laws and revenue loss. The study, therefore, evaluated the effect of audit staff capacity and tax dispute resolution mechanism on tax audit effectiveness in Kenya Revenue Authority (KRA) -South Rift Valley Region. The study was premised on the Optimal Theory of Taxation. Through a descriptive research design and a census of 80 tax officers, data collected using questionnaires revealed that tax audit staff capacity (β = 0.292, p < 0.05) was directly related to tax audit effectiveness in KRA. However, the tax disputes resolution mechanisms (β = 0.052, p ˃ 0.05) did not significantly affect tax audit effectiveness. Therefore, regular training of KRA staff was recommended as well as additional policy interventions on the tax dispute resolution mechanisms so as to expedite resolution of tax disputes and prevent accrual of dues and unresolved disputes.

**Key words: *Audit staff capacity, tax dispute resolution mechanism, tax audit effectiveness, Kenya Revenue Authority***

# Introduction

## *1.1 Background of the Study*

Taxes are considered to be mandatory payment to government, a definition differentiating it from other government actions which have an equivalent economic effect, thus it is neither inclusive nor exclusive (Thuronyi, 2003). Therefore, taxation is not only the compulsory payment but also the conveying of funds from citizens to government charged as per the tax laws to facilitate the government in delivering its public goods and service. Revenue tax is a major source of finances to the nation. It is solely use to fund the governments’ development and recurrent expenditure (Badara, 2012). In fact, according to Gbadago and Awunyo-Vitor (2015), tax revenue has been recognized as the main sources of finance to the government. Consequently, modern economies have establish robust tax systems that assist in efficient collection of taxes to ensure that the supply of public goods and services and also boost public confidence to the government, while guaranteeing that the tax-burden administration is fair and equitable.

In developed nations like USA and Canada tax collection systems employed are not only effective but efficient resulting in optimal collection of expected tax revenues (Beekes & Brown, 2008). In contrast, a study by Edward (2009) depicted that the difficulties in collecting tax revenue in developing countries were more pronounced as compared with the developed countries. According to the IMF (2011), extensive tax evasion and avoidance is the main challenge to domestic tax base expansion in many African nations. Notwithstanding the fact that poor tax compliance is becoming a major problem in nations around the world  (McKerchar & Evans, 2009), developing states especially those in Sub-Saharan Africa are mostly affected (Fuest & Riedel, 2009). The explanations behind tax revenue losses are many, although most authors tend to agree that system inadequacy, corruption, poor internal control systems and corporate governance among others are to blame for the state of affairs. For example, Fati’s (2014) study in Ghana revealed that the tax revenue performance has been unstable due to lack an all-inclusive register for all the business activities that are subjected to taxes.

Taxpayer audits have remained a key measure for dealing with compliance risk. In many revenue collecting bodies audit forms a biggest initiative in terms resources deployed to administer tax laws and regulations. The main objective of revenue bodies is to optimize revenue collected under the tax laws and improve the rates of compliance while maintaining public trust (OECD, 2006). Tax audit can be termed as a verification of a tax return by tax officers to check and confirm that the income reported and expenditure claimed from the same are correct. It involves examination of tax returns in relation to the taxpayer’s records and books of accounts. Poor tax audit has been cited as being among one of the many reasons behind non-compliance and revenue loss. The financial reporting systems for most businesses enterprises are sub-standard and, hence, these poses a significant challenge to the tax auditor. Furthermore, the intricacy of tax auditing procedures, and the impression that the tax rates are high has contributed greatly to upsurge in non-compliance  (Kiabel & Nwokah, 2009).The strength of audits differs from one country to another. Germany and Japan have the most intensive field audits, and then followed by the U.S, but the potency of audit in U.K. is low. In addition, the nature of the tax audit procedures varies from one country to another, such that Common law countries tend to have a fairly informal procedure for assessment of tax (Thuronyi, 2003).

The Kenya’s tax revenue trend analysis from 2010 to 2015 shows revenue has been increasing every year from 7,760 million US dollars in year 2010/11 and to 11,343.1 million US dollars in year 2015/16. However, the percentage of tax revenue on total government expenditure was 73.83 for year 2010/11 while in year 2015/16 the percentage was 57.9 %, as per the data in Table1.1 (EAC,2016). This analysis shows that the government is far from being self-financed government, and thus there was need to improve/review tax initiatives.

***Table.1.1***

**Kenyas Tax Revenue and Government Expenditure for Year 2010/11 To 2015/16**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
| Tax Revenue (Million USD) | 7,760 | 7,923 | 9,201 | 10,976 | 10,487 | 11,343 |
| Government Expenditure (Million USD) | 10,510 | 12,041 | 12,623 | 15,198 | 17,940 | 19,600. |
| % Tax Revenue On Gov't Expenditure | 73.8 | 65.8 | 72.9 | 72.2 | 58.5 | 57.9 |

***Source:*** [***http://www.eac.int/about/key-documents***](http://www.eac.int/about/key-documents)

# The Problem

The tax compliance in Kenya is estimated at 65% being the weighted average of registration-60% of the citizens , filing-55.5% of the taxpayers registered and payment rates at 79.9 per cent of the taxpayers who are filing returns, respectively (KRA, 2015). Ineffective tax audit has been considered as one of the many reasons behind non-compliance. The taxpayers that were audited during year 2010-2015 in Kenya Revenue Authority Specifically in South Rift valley region in relation to the total number of taxpayers mapped to the region is very low. There is scant research on factors that affect the effectiveness of the tax audit function as a tax administrative tool especially in Kenya. Therefore, the present study sought to examine how audit staff capacity and tax dispute resolution mechanism affects effectiveness of tax audit function in revenue collection in South Rift Valley Region.

# Objectives

The general objective of the study was to evaluate the selected factors affecting tax audit effectiveness in Kenya Revenue Authority.

1. To investigate the effect of audit staff capacity on tax audit effectiveness in South Rift Valley Region.
2. To evaluate the effect of tax disputes resolution mechanisms on tax audit effectiveness in South Rift Valley Region.

# Literature Review

*4.1 Optimal Theory of Taxation*

The Optimal Theory of Taxation is an outgrowth of the foundational work of Ramsey (1927) and Mirrlees (1971) and has been very instrumental for economists when deciding on optimum tax policy. In the accepted optimal theory a tax administration system should the one that maximizes the social welfare of the stakeholders.  Developments in recent decades concerning optimal tax theory has led to certain postulates: That essentially, best taxation is concerned with maximizing revenue collection to economically feasible limits as advised by Adam Smith while also minimizing the costs of taxation. The costs noted are the efficiency costs (Barro 1986). The Costs incurred in raising taxes can either be administrative (Kinyua, 2014) that leads to governments to invest in more efficient systems, such as, technology based systems to avoid revenue leakages, and social costs which are generally concerned with the distributive ability of the population.

The current study is also concerned with the problem of the revenue envelope. Governments primarily derive their revenues from taxes and these taxes in the budget are often designated as revenue estimates, therefore, a theory that undergirds the taxation process as a means of achieving the budget objectives is important. The Optimal Theory of Taxation theory was thus instrumental in explaining how auditing optimizes tax for the revenue collector.

*4.2 Tax Audit Staff Capacity*

 Al-Twaijry *et al*., (2004) posited that skills and competencies determine the internal audit work can be trusted by the auditors from independent entities. In Studies by Ali *et al*. (2007) and Ahmad *et al.* (2009) in analyzing of importance of domestic audits to public sector in Malaysia and they discovered that inadequate staff and incompetence due to lack of training, requisite knowledge and experience in handing work has a negative impact on the internal audit functions. They therefore recommended that frequent training of staff is imperative and paramount in improving the work of internal audit. Schyf (2000) highlighted factors that are adversely affecting performance of internal audit program in South Africa’s public sector. The variables were inadequate competencies and skills among the audit staff.

 Puteh (2016) carried out a study of the critical competences considered by top management in service industry in Malaysia. She found that cognitive competences, functional, leadership and communication are considered vital for the organizational excellence in performance and professional employees are supposed to have best delivery of their services. Professionals are therefore expected to equip themselves with those competences and to pursue the development of the same so they can increase their capacities in carrying out their daily duties, enable them to interact with their colleagues of all cadres in their respective organization, and also make them have competitive advantage in the job market.

However, no empirical studies have been done so far in relation to the effects of tax auditors’ competence on tax audit effectiveness in the KRA South Rift valley Region in Kenya.

*4.3 Tax Dispute Resolution Mechanism*

A study was carried out by Tran-Nam and Walpole (2016) in Australia to examine the feasibility of external tax dispute resolution and the effects of unbiased tax dispute resolution on social justice. The research discovered that the studies on tax administration complexity did not consider the implication of laws and regulation intricacy on tax justice. Secondly, they didn’t differentiate between tax disputes from civil and commercial disputes; thirdly, the compliance costs is an impediment to easy access and impartiality of tax dispute resolution techniques; and finally, they did not noted that inaccessibility and unbiased tax dispute resolution procedures may result to a breach of both social and distributive justice. The research points out that Australian Tax Office has recently developed an Alternative Dispute Resolution approach as tax dispute resolution mechanism that can reduce the compliance costs, pressure and it results in a socially unbiased outcome for taxpayers.

 Wardhana (2016) evaluated decisions made by court on transfer pricing tax disputes from the 2002 to 2013 in Indonesia. The paper pointed out that the disputes prompted the Indonesian Tax Authority to review its transfer pricing procedures, and subsequently enacted a Regulation that arrogated the arm’s-length principles in line with the OECD procedures with regard to transfer pricing. The study finally justifies the reason as to why 76% transfer pricing disputes in Indonesia were in the favour of the taxpayer by noting that it is due to variability of legal basis of the existing legislation, lack of transfer pricing audit regime, lack of expertise in transfer pricing issues and a weak transfer pricing system.

# Methodology

**5. Research Methodology**

*5.1* *Research Design*

The study used descriptive survey research design. This research study employed descriptive research design.  Descriptive research was preferred since it gives current information of the subject under study and illustrates the conditions in a situation (Trevor, 2010).

*5.2 Target Population*

The study targeted the Kenya Revenue Authority- South Rift Valley Region based in Nakuru County whose coverage consists of Nyahururu, Naivasha, Nakuru, Narok, Maralal and Kericho. The station has 80 tax officers in both the Nakuru Station and the satellite stations. Therefore, the entire accessible population under consideration in this study comprises 80 persons. This population was chosen due to their conversance with the tax audit process and is expected to be familiar with the variables being investigated in this study.

*5.3 Sampling and Sampling Techniques*

The study employed the census method because the respondents are specific persons in the organizations that are involved in the tax audit operation, control and management of the audit functions in South Rift Valley Region- KRA. Furthermore, the population composed of only 80 respondents. The main factor that was considered in using the sampling method was the need to keep it manageable while being representative enough of the entire population under study.

*5.4 Research Instrumentation*

The study used primary data which basically involves creating “new” data (Kombo & Tromp, 2006). The data was based on the perceptions and attitude of the respondents towards the subject of interest to the present study. Therefore, given the nature of data to be collected, the nature of variables under investigation in the study and the nature of the population, questionnaires were the most appropriate data collecting instruments. The study used a structured type questionnaire. The responses were rated on a 5 point Likert scale ranging from; 1 = strongly disagree to 5 = strongly agree.

*5.5 Pilot Test, Validity and Reliability of the Research Instruments*

Piloting was undertaken in KRA Eldoret-North Rift Valley Region, before the questionnaires were used to check accuracy and correctness using 10 respondents who were purposively selected; however, this population was not included in the actual study. Thereafter, the questionnaires were subjected to the validity and reliability tests.

Validity was tested by reviewing the research instrument design in relation to the objectives of the study to ensure that it is up to the standards. The study adopted content validity which to ascertain whether the test items represented the subject content that the study sought to investigate (Mugenda & Mugenda, 2003). As such, in order to ensure that all the items used in the questionnaires were consistent and valid, the instruments were subjected to scrutiny and review by the researcher’s supervisors at Kabarak University. The items were rephrased and modified where necessary to avoid ambiguity before being used for data collection.

The researcher used the test-retest method to check the reliability of the research instruments. This was done by calculating the Pearson’s alpha coefficient for all the sections of the questionnaire from the results of the pilot study. The study established a Pearson’s Coefficient instrument reliability α = 0.833 which was deemed admissible for the study. According Bhattacherjee (2012), the correlation coefficient above 0.7 is adequate and indicates that the data is reliably good to carry out the study.

*5.6 Data Analysis Techniques and Presentations*

Data was analyzed using both descriptive and inferential statistical methods. Descriptive analysis was done using means and standard deviations to describe the basic characteristics of the population. Inferential statistics involved the use of Pearson’s Product Moment correlation and linear regression model to determine the nature of the relationship between the variables with the linear regression model assumed to hold under the equation;



Where;

*y* = Tax Audit Effectiveness

*β0* = Constant

X1 = Audit Staff Capacity

X3 = Tax Dispute Resolution Mechanism

*β1* to *β4*, are the coefficients of the variables determine by the model

*ɛ* = the estimated error of the regression model.

# Results

## *6.1 Introduction*

This chapter presents the data analysis results and discussions. Table 1 shows the response rates.

**Table 1: Rate of Response**

|  |  |  |
| --- | --- | --- |
| **Target No. of respondents** | **No. of Questionnaires Returned** | **Response Rate (%)** |
| 80 | 70 | 87.5 |

The high questionnaire response rate (87.5%) shown in Table 4.1 resulted from the method of administration of the instrument, which was in this self-administered. This was acceptable according to the recommendations of Mugenda and Mugenda (2003). The other questionnaires were either not returned or found to be unusable for the study; hence, their results could not be included in the findings.

## *6.2 Audit staff capacity on tax audit effectiveness in South Rift Valley*

The second objective of the research study was to find out the effect of audit staff capacity on tax audit effectiveness in South Rift Valley Region. This objective was assessed on the basis of training, experience and staff adequacy. The results are summarized in Table 2.

**Table 2: Audit staff capacity on tax audit effectiveness in South Rift Valley**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|   | SA | A | N | D | SD |   | **p-**  |
| **Statement** | Freq(%) | Freq(%) | Freq(%) | Freq(%) | Freq(%) | **χ2** | **value** |
| Tax auditors are well trained and capable of carrying out their work | 16(22.9) | 46(65.7) | 5(7.1) | 2(2.9) | 1(1.4) | 71.77 | 0.001 |
| All tax auditors in our organization recieve regular training to enable them be more competent in their work | 4(5.7) | 24(34.3) | 16(22.9) | 22(31.4) | 4(5.7) | 64.48 | 0.001 |
| Tax auditors demonstrate conversance with tax laws in carrying out audit | 10(14.3) | 47(67.1) | 10(14.3) | 3(4.3) | 0 | 83.51 | 0.001 |
| Tax audit staff are enough to audit more than half of taxpayers in a given year. | 2(2.9) | 3(4.3) | 15(21.4) | 36(51.4) | 14(20.0) | 54.24 | 0.000 |
| Tax audit staff are fully facilitated to carry out audit. | 0 | 23(32.9) | 21(30.0) | 20(28.6) | 6(8.6) | 47.88 | 0.000 |
| Tax audit staff adheres to KRA core values | 15(21.4) | 41(58.6) | 12(17.1) | 2(2.9) | 0 | 51.06 | 0.001 |
| Audit staff have been achieving there revenue targets in last 5 years | 7(10.0) | 29(41.4) | 21(30.0) | 11(15.7) | 2(2.9) | 95.72 | 0.001 |

The findings in Table 2 shows that majority of the respondents were of the view that the Tax auditors were well trained and capable of carrying out their work as indicated by 65.7% who agreed. Further, all tax auditors in the area recieved regular training to enable them be more competent in their work as indicated by majority of the respondents who agreed (34.3%) compared to those who disagreed (31.4%). The findings also indicate that majority of the tax auditors demonstrate conversance with tax laws in carrying out audit (67.1%). However, most respondents disagreed that there were enough tax audit staff to audit more than half of taxpayers in a given year (51.4%). Further, the tax audit staff were fully facilitated to carry out audit as indicated by majority of the respondents who disagreed (28.6%) and those who strongly disagreed (8.6%). Other findings indicate that the tax audit staff adheres to KRA core values as indicated by most of the respondents who agreed (58.6%). Also the audit staff have been achieving there revenue targets in last 5 years (41.4%).

It is evident from these results that staff capacity was an essential element in tax audit. However, the near parity in different opinions on staff training, that is, all tax auditors in the area recieved regular training to enable them be more competent in their work is in contrast to the Mihret et al. (2010) noted frequent training of audit staff and technical competence are the necessary for effective tax audit. Indeed, Schyf (2000) pointed out the barriers that affecting the performance of internal audit in South African public sector to include lack of relevant competencies among others.

## *6.3 Tax disputes resolution mechanisms on tax audit effectiveness in Kenya*

The third objective of the study was to evaluate the effect of tax disputes resolution mechanisms on tax audit effectiveness in South Rift Valley Region. This objective was examined using several indicators namely; cases completion time, tax recovery efficacy and alternative resolution. The results are summarized in Table 3.

**Table 3: Tax disputes resolution mechanisms on tax audit effectiveness in Kenya**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|   | SA | A | N | D | SD |   | **p-**  |
| **Statement** | Freq(%) | Freq(%) | Freq(%) | Freq(%) | Freq(%) | **χ2** | **value** |
| The tax dispute resolution mechanism in place is effective and efficient in resolving disputes | 7(10.0) | 44(62.9) | 13(18.6) | 6(8.6) | 0 | 111.14 | 0.000 |
| Over 50% of tax disputes cases have been resolved within 3 months | 5(7.1) | 10(14.3) | 25(35.7) | 24(34.3) | 6(8.6) | 53.79 | 0.001 |
| KRA has won over 50% of tax disputes in the past 5 years.  | 3(4.3) | 18(25.7) | 32(45.7) | 15(21.4) | 2(2.9) | 75.11 | 0.001 |
| The tax dipute resolution mechanism procedures are well understood by both parties(KRA staff and taxpayers)  | 4(5.7) | 31(44.3) | 14(20.0) | 20(28.6) | 1(1.4) | 115.77 | 0.000 |
| Over 50% of tax liabilities arising from taxpayer audits cases ends up in disputes  | 4(5.7) | 15(21.4) | 23(32.9) | 23(32.9) | 5(7.1) | 54.41 | 0.000 |
| Over 50% of tax disputes are reolved at the Tax Appeal Tribunal. | 5(7.1) | 13(18.6) | 29(41.4) | 19(27.1) | 4(5.7) | 123.41 | 0.001 |

It is evident from the findings in Table 3 that the tax dispute resolution mechanisms in place were effective and efficient in resolving disputes as indicated by majority of the respondents who agreed (62.9%). However, there was uncertainty on whether more than 50% of tax disputes cases have been resolved within 3 months as indicate by majority of the respondents who were neutral (35.7%). Consequently, there was also uncertainty on whether KRA has won over 50% of tax disputes in the past 5 years (45.7%). Further, the tax dipute resolution mechanism procedures were well understood by both parties(KRA staff and taxpayers) as suggested by majority of the respondents who agreed (44.3%). However, majority of the respondents disagreed (32.9%) while 7.1% strongly disagreed with the view that over 50% of tax liabilities arising from taxpayer audits cases ends up in disputes. There was also uncertainty as to whether over 50% of tax disputes were resolved at the Tax Appeal Tribunal (41.4%).

These findings suggest that the tax dispute resolution mechanisms were not adequate and underscore the need for having a robust dispute resolution mechanism. According to Wardhana (2016), disputes prompted the Indonesian Tax Authority to review its transfer pricing procedures, and subsequently enacted a Regulation that arrogated the arm’s-length principles in line with the OECD transfer pricing guidelines.

## *6.4 Tax Audit Effectiveness in South Rift Valley Region*

Finally, the study sought to determine the levels of tax audit effectiveness in South Rift Valley Region. This dependent variable was determined by asking the respondents the question surrounding the number of taxpayer audits that have been done, rates of compliance and revenue collected. These results are presented in Table 4.

**Table 4: Tax Audit Effectiveness in South Rift Valley Region**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|   | SA | A | N | D | SD |
| **Statement** | Freq(%) | Freq(%) | Freq(%) | Freq(%) | Freq(%) |
| Tax audits have contributed to high revenue collection over the period 2010 – 2015 | 13(18.6) | 43(61.4) | 11(15.7) | 3(4.3) | 0 |
| Tax audit contributed significantly to increase in tax compliance rate over the period 2010 - 2015 | 10(14.3) | 48(68.6) | 10(14.3) | 2(2.9) | 0 |
| Tax audit is an important enforcement initiative in revenue collection | 18(25.7) | 47(67.1) | 4(5.7) | 1(1.4) | 0 |
| More than 50% of taxpayers in South Rift Valley Region were audited in 2010 - 2015 | 1(1.4) | 8(11.4) | 30(42.9) | 25(35.7) | 6(8.6) |
| Both corporate and individual business were audited in 2010 – 2015 in South Rift Valley Region | 4(5.7) | 41(58.6) | 10(14.3) | 11(15.7) | 4(5.7) |
| Over 50% of taxpayers audited have complied to tax legislation | 1(1.4) | 36(51.4) | 21(30.0) | 12(17.1) | 0 |
| All the taxpayer audits carried out in 2010 – 2015 resulted in high tax yield in South Rift Region | 5(7.1) | 36(51.4) | 24(34.3) | 5(7.1) | 0 |

The results in Table 4 suggest that tax audits have contributed to high revenue collection over the period 2010 – 2015 as confirmed by the percentage of the respondents who agreed that is 61.4%. Further, tax audit contributed significantly to increase in tax compliance rate over the period 2010 – 2015 (68.6%). The findings also indicate that most repondents were of the view that tax audit is an important enforcement initiative in revenue collection (67.1%). However, the results also suggest that there was uncertainty on whether more than 50% of taxpayers in South Rift Valley Region were audited in 2010 – 2015 as revealed by most of the respondents who were neutral (42.9%) regarding this statement. Nevertheless, both corporate and individual business were audited in 2010 – 2015 in South Rift Valley Region (58.6%). Most respondents, however, agreed that over 50% of taxpayers audited have complied to tax legislation (51.4%). The findings also indicate that all the taxpayer audits carried out in 2010 – 2015 resulted in high tax yield in South Rift Region (51.4%).

These findings agree with Nurebo et al.(2019) who found out that support from the management, quality of the audit, awareness of the taxpayers, and system of tax administration are directly related to audit effectiveness, whereas complexity of tax law and accounting/reporting of taxes are inversely related to tax audit effectiveness. The findings also agree with Badara (2012) who found that the Tax collection body use tax audits in order to optimize revenue collection, that tax audit mitigates tax evasion, and that there is lack of cooperation of tax payers with tax audit staff during audit process.

## *6.4 Regression Analysis*

Multivariate regression analysis was used to determine the regression model postulated in chapter three held and actually represented what was happening on the ground. The results are given in Table 4.

**Table 4: Multiple Linear Regression Analysis Model Summary**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .314a | 0.099 | 0.072 | 2.80248 |
| a Predictors: (Constant), Dispute Resolution Mechanism, Audit Staff Capacity |

The regression analysis results in Table 4 shows that the relationship between the dependent variable and the independent variable had a model correlation coefficient R = 0.314 which was higher than any zero order value in the table. The results in Table 4 also suggests that the model with the two variables could explain up to 9.9% of the variations in the dependent variable. This indicates that the model could improve when more variables are incoporated when trying to analyze to evaluate the selected factors affecting tax audit effectiveness in Kenya Revenue Authority. It was also salutary to carry out an ANOVA to validate the findings in Table 5. The results of the ANOVA are summarized in Table 5.

**Table 5: Depended variable: Implementation ( ANOVA)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|   | Sum of Squares | df | Mean Square | F | Sig. |
| Regression | 57.559 | 2 | 28.78 | 3.664 | .031b |
| Residual | 526.212 | 67 | 7.854 |  |  |
| Total | 583.771 | 69 |  |  |  |
| a Dependent Variable: Tax Audit Effectiveness |  |
| b Predictors: (Constant), Dispute Resolution Mechanism, Audit Staff Capacity |

The results of Table 5 indicate that there is a significant difference between means of the independent variables - Dispute Resolution Mechanism and Audit Staff Capacity - and the variable describing the tax audit effectiveness in Kenya Revenue Authority (Fo’ = 3.664 > Fc = 3.13; α < 0.05; df = 2, 67; p < 0.05). This finding confirms that the model predicted by Table 4 and shows that it is indeed significant. Further, the beta value was used to determine the model linking the the independent variables - Dispute Resolution Mechanism and Audit Staff Capacity - to tax audit effectiveness in Kenya Revenue Authority as shown in Table 6.

**Table 6: Multiple linear regression results**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
|   | B | Std. Error | Beta |   |   |
| (Constant) | 18.826 | 2.485 |  | 7.575 | 0.000 |
| Audit Staff Capacity | 0.229 | 0.098 | 0.292 | 2.348 | 0.022 |
| Dispute Resolution Mechanism | 0.046 | 0.11 | 0.052 | 0.417 | 0.678 |
| a Dependent Variable: Tax Audit Effectiveness |  |

It can be deduced from the findings in Table 6 that of the two independent variables, Audit Staff Capacity (β = 0.292, p < 0.05) was the only one that significantly influenced tax audit effectiveness in Kenya Revenue Authority, South Rift Valley Region as per the model. Dispute Resolution Mechanism (β = 0.052, p ˃ 0.05), however, was not significant in the model. Therefore, the resulting could be predicted by the linear relationship;

Y = 18.826 + 0.229 Audit Staff Capacity (ASC) + 0.046 Dispute Resolution Mechanism

Therefore, with regard to the null hypothesis;

**H01:** *Audit staff capacity has no statistically significant effect on tax audit effectiveness in South Rift Valley Region.*

According to the results in the multiple regression model in Table 4.6, Audit staff capacity had a statistically significant effect on tax audit effectiveness in South Rift Valley Region (β = 0.292, p < 0.05). Consequently, the null hypothesis **H01** was rejected. These findings agree with Chalu and Mzee (2017) whose study on the variables affecting the tax audit effectiveness in Tanzania revealed that adequacy of tax audit unit influenced the effectiveness of tax audit. Further, Alzeban and Gwilliam (2014) in his findings found out that staff competence is directly associated to the tax audit effectiveness. It also concurs with Cohen and Sayag (2010) who argued that the proficiency of employees in audit if critical for effective audits.

Also the hypothesis:

**H02:***Tax disputes resolution mechanism has no statistically significant effect on tax audit effectiveness in South Rift Valley Region****.***

It is evident from the results from the regression model in Table 6 that Tax disputes resolution mechanism has no statistically significant effect on tax audit effectiveness in South Rift Valley Region (β = 0.052, p ˃ 0.05). As such, the null hypothesis **H02** was accepted and the view that adopted Tax disputes resolution mechanism was not a factor of tax audit effectiveness in the area. According to a study by Tran-Nam and Walpole (2016) in Australia on the feasibility of external tax dispute resolution and the effects of unbiased tax dispute resolution on social justice, a tax dispute resolution mechanism that can reduce the compliance costs, pressure and it results in a socially unbiased outcome for taxpayers.

# Recommendations and Areas for further study

In relation to tax audit staff capacity, the study recommends that KRA organizes regular training for all its staffs to enable them be more competent in their work. In addition, it should also ensure that more tax audit staff is recruited proportional to the projected taxpayer base so as to increase tax audit efficiency.

The study, further, recommends in relation to tax disputes resolution mechanisms that there is need to make policy interventions on the tax dispute resolution mechanisms so as to enable the expedition of tax disputes and prevent accrual of dues and unresolved disputes. The interventions should also aim to ensure that fewer tax liabilities arising from taxpayer audits cases ends up in disputes.

Future research should incorporate taxpayers and also use other data analysis tools like time series models in analyzing data.

# Conclusions

 Concerning the audit staff capacity, the study concludes that it was a significant factor of tax audit effectiveness in South Rift Valley Region. It was established that most tax auditors were well trained and capable of carrying out their work and demonstrated conversance with tax laws in carrying out audit. However, there was uncertainty on whether all tax auditors in the area recieved regular training to enable them be more competent in their work. It was further established that the tax audit staff was inadequate to audit more than half of taxpayers in a given year.

In relation to tax dispute mechanisms, it can be concluded that that tax disputes resolution mechanisms was not a factor of tax audit effectiveness in South Rift Valley Region. The tax dispute resolution mechanisms in place were effective and efficient in resolving disputes. However, there was uncertainty on whether more than 50% of tax disputes cases have been resolved within 3 months. Further, over 50% of tax liabilities arising from taxpayer audits cases ends up in disputes.

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