



**ST. MARY'S UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT OF TAX AUDIT PRACTICE OF MINISTRY OF  
REVENUES EASTERN ADDIS ABABA SMALL TAX PAYERS  
BRANCH OFFICE**

**BY**  
**SEID AREGA**

**JUNE, 2020**  
**ADDIS ABABA, ETHIOPIA**

**ASSESSMENT OF TAX AUDIT PRACTICE OF MINISTRY OF  
REVENUES EASTERN ADDIS ABABA SMALL TAX PAYERS  
BRANCH OFFICE**

**BY:  
SEID AREGA**

**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF  
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION (MBA) IN ACCOUNTING AND FINANCE**

**JUNE 2020  
ADDIS ABABA, ETHIOPIA**

**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES  
FACULTY OF BUSINESS**

**ASSESSMENT OF TAX AUDIT PRACTICE OF MINISTRY OF  
REVENUES EASTERN ADDIS ABABA SMALL TAX PAYERS  
BRANCH OFFICE**

**BY:  
SEID AREGA**

***APPROVED BY BOARD OF EXAMINERS***

---

*Dean, Graduate Studies*

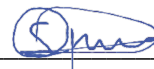
---

*Signature*

---

*Simon T. (Ass. Prof.)*

*Advisor*



---

*Signature*

---

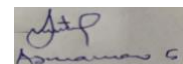
*External Examiner*

---

*Signature*

*Asmamaw Getie(PHD)*

*Internal Examiner*



*Signature*

## DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Simon Tarekegn (Ass.Pro). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

SEID AREGA

Name

\_\_\_\_\_

Signature

St. Mary's University, Addis Ababa

June, 2020

## ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Simon Tarekegn (Ass.Pro)  
Advisor

  
Signature

St. Mary's University, Addis Ababa

June, 2020

## **ACKNOWLEDGMENTS**

First and foremost, I want to thank the Almighty God for every blessing that you enrich me with in my whole life. Then I would like to thank my advisor Simon Tarekegn (Ass.Pro.) for his unreserved advice for the completion of this paper.

I would like to pass my deepest gratitude to my mother Kenzie Hassen and my father Arega Yimam. This is for you from start till there you were with me. My brother Mohammed Arega, your effort for this is not counted thank you for the moral and material supports. In addition, my thanks go to my friend Hiwot for your unreserved support to help for the study unless and otherwise it would not have completed like this.

Last but not least I hurtfully acknowledged the contribution of my friends Nesredin Mohammed, Tadesse Demissie and Shumiye Sisay for their support for the completion of this study.

# Table of Contents

<b>ACKNOWLEDGMENTS</b> .....	<b>v</b>
<b>List of Tables</b> .....	<b>ix</b>
<b>List of Abbreviations and Acronyms</b> .....	<b>x</b>
<i>Abstract</i> .....	<b>xi</b>
<b>CHAPTER ONE</b> .....	<b>1</b>
<b>1.0 INTRODUCTION</b> .....	<b>1</b>
<b>1.1 Back Ground of the Study</b> .....	<b>1</b>
<b>1.2 Statement of the Problem</b> .....	<b>2</b>
<b>1.3 Objectives of the Study</b> .....	<b>3</b>
<b>1.3.1 General objectives</b> .....	<b>3</b>
<b>1.3.2 Specific objective</b> .....	<b>3</b>
<b>1.4 Significance of the Study</b> .....	<b>4</b>
<b>1.5 Scope of the Study</b> .....	<b>4</b>
<b>1.6 Limitation of the Study</b> .....	<b>4</b>
<b>1.7 Organization of the Paper</b> .....	<b>5</b>
<b>CHAPTER TWO</b> .....	<b>6</b>
<b>2.0 LITERATURE REVIEW</b> .....	<b>6</b>
<b>2.1 Taxation</b> .....	<b>6</b>
<b>2.2 Auditing</b> .....	<b>6</b>
<b>2.3 Tax Audit</b> .....	<b>7</b>
<b>2.4 Types of Tax Audit</b> .....	<b>8</b>
<b>2.4.1. Full Audit</b> .....	<b>9</b>
<b>2.4.2. Issue Audit</b> .....	<b>9</b>
<b>2.4.2.1. Desk Issue Audit</b> .....	<b>10</b>
<b>2.4.2.2. Field Issue Audit</b> .....	<b>10</b>
<b>2.4.3. Special Audit Projects</b> .....	<b>11</b>
<b>2.4.4. Advisory Visit Audits</b> .....	<b>11</b>
<b>2.4.5. Refund Audits</b> .....	<b>12</b>
<b>2.4.6. Investigation Audit</b> .....	<b>12</b>

<b>2.4.7. De-Registration Audits</b> .....	12
<b>2.5 Audit Approaches and Evidences</b> .....	12
<b>2. 5.1 Audit Approach</b> .....	12
<b>2.5.1.1. The Substantive Procedures Approach</b> .....	13
<b>2.5.1.2. The balance Sheet Approach</b> .....	13
<b>2. 5.1.3. The Systems-Based Approach</b> .....	13
<b>2.5.1.4. The risk-based approach</b> .....	14
<b>2.5.2. Audit Evidence</b> .....	14
<b>2.5.3 Types of Audit Evidence</b> .....	15
<b>2.5.3.1 Physical Evidence</b> .....	15
<b>2.5.3.2 Documentary</b> .....	15
<b>2.5.3.3 Inquiry</b> .....	15
<b>2.5.3.4 Analytical</b> .....	17
<b>2.5.3.5 Confirmation</b> .....	17
<b>2.5.3.6 Recalculation</b> .....	18
<b>2.5.3.7 Re-performance</b> .....	18
<b>2.6 Audit Program</b> .....	18
<b>2.6.1 Audit Selection Methods</b> .....	20
<b>2.6.2 Audit Examination Techniques</b> .....	22
<b>2.7 Guiding Principles of Good Tax Policy</b> .....	23
<b>2.7.1 Equity and Fairness</b> .....	24
<b>2.7.2 Certainty</b> .....	24
<b>2.7.3 Convenience</b> .....	24
<b>2.7.4 Economy of calculation</b> .....	25
<b>2.7.5 Simplicity</b> .....	25
<b>2.7.6 Neutrality</b> .....	25
<b>2.7.7 Economic growth</b> .....	25
<b>2.7.8 Transparency and Visibility</b> .....	25
<b>2.7.9 Appropriate government revenues</b> .....	26
<b>2.7.10 Minimum tax gap</b> .....	26
<b>2.7.11 Effective tax Administration</b> .....	26
<b>2.8 Risk Assessment</b> .....	26
<b>2.9 Tax Compliance</b> .....	27



2.9 Tax Payers Awareness.....	29
2.10 Empirical Studies.....	30
<b>CHAPTER THREE.....</b>	<b>36</b>
<b>3.0 RESEARCH DESIGN AND METHODOLOGY .....</b>	<b>36</b>
3.1 INTRODUCTION .....	36
3.2 Research Approach .....	36
3.3 Population.....	36
3.4 Data Sources and Collection Method.....	37
3.4.1 Sources of Data .....	37
3.4.2 Data Collection Technique.....	37
3.5 Data Analysis.....	37
<b>CHAPTER FOUR .....</b>	<b>38</b>
<b>4.0 ANALYSIS AND INTERPRETATION OF DATA.....</b>	<b>38</b>
4.1 Survey Results.....	38
4.2 Back ground Information of Respondents .....	38
4.2 Data Analysis and Discussion .....	40
4.2.1 Cases Related to Audit Selection .....	40
4.2.3 Cases in regarding to Tax Policies .....	41
4.2.3 Cases on Audit Program .....	45
4.2.4 Tax audit Performance and Tax compliance .....	46
4.5 Analysis and interpretation on audit approach, Evidence, Type and over all information .....	49
<b>CHAPTER FIVE.....</b>	<b>55</b>
<b>5.0 CONCLUSIONS AND RECOMMENDATIONS.....</b>	<b>55</b>
5.1 Main Findings .....	55
5.2 Conclusions.....	56
5.3 Recommendations.....	56
<b>REFFERNCE .....</b>	<b>58</b>
<b>APPENDIX.....</b>	<b>62</b>

## List of Tables

Table 1 Personal Information of Respondents .....	39
Table 2 Audit Selection .....	41
Table 3 Tax policy Guide lines .....	43
Table 4 Cases on Audit program .....	45
Table 5 Tax Audit Performance.....	47
Table 6 Tax Audit Activities.....	48
Table 7 Audit Evidence and Approach .....	51
Table 8 Tax Audit Type and Tax Compliance-----	51

## **List of Abbreviations and Acronyms**

MOREASTO-Ministry of Revenues Eastern Addis Ababa Small Tax Payers Branch Office

OECD - Organization for Economic Co-operation and Development

ERCA-Ethiopian Revenues and Customs Authority

VAT-Value Added Tax

CAAT-Computer Assisted Auditing Technique

## **Abstract**

Tax audit is an activity or a set of activities performed by Tax auditors to determine at taxpayer's correct tax liabilities for a particular accounting or tax period. The aim of the study is to assess tax audit practice of ministry of revenues Eastern Addis Ababa small tax payers' branch office. The Research methodology a researcher followed both qualitative and quantitative research method. Because, the target population to be studied is small. In eastern Addis Ababa small tax payer's office there are 76 tax auditors supervised and lead by 10 team leaders managed by two process owners. The data collected from all parts of the tax audit department through interview and questionnaires. The researcher addressed 76 questionnaires and only 72 questionnaires were returned. The data is analyzed based on descriptive method. The findings from the study results that the non-compliance behavior of the tax payer is due to interest of evading and fraud of the tax liability. The tax payers are not cooperate to give essential information to the tax auditor. In addition, the tax audit programm strength and weakness is not evaluated.

Some of the recommendations from the findings are the MOREASTO deliberately considering in creating awareness on the tax payers and assign a qualified tax auditor for the inefficient human resources. In addition, the tax administer revises the tax policy.

**Key words: taxation, tax audit, tax compliance, tax audit type**

# **CHAPTER ONE**

## **1.0 INTRODUCTION**

### **1.1 Back Ground of the Study**

Taxation is developed in overall the world as a major source of revenue for the government to administer the society as a whole but its effectiveness in developing countries is poor. A tax is a compulsory charge or payment imposed by government on individuals or corporations without any expectation of direct return in benefit. In such a way that a government follows a good tax policy to achieve its objectives. Some of the guiding principles are equity and fairness, certainty, convenience of payment, effective tax administration, simplicity, accountability to tax payers and minimum tax gap but practically the principle is not performed from either the tax administrator or the tax payer. Tax evasion and fraud are still now continued. In what way to minimize is a big issue and the government assigns a tax audit to overcome the tax problems. To achieve the effective income from tax the government assigns the tax audit in which its purpose is to ensure the accuracy of books of accounts maintained, which forms the basis of computation of income of the assessee.

The tax audit provisions introduced memorandum explaining the provision of finance bill. The compulsory audit is intended to ensure proper maintenance of books of accounts and other records in order to reflect the true income of the tax payer and to facilitate the administration of tax laws by a proper presentation of the accounts before the tax authorities. This is also saving the time of the assessing officers considerably in carrying out the verification.

A tax audit in ERCA's context is defined as: an activity or a set of activities performed by Tax auditors to determine a taxpayer's correct tax liabilities for a particular accounting or tax period, by examining a taxpayer's organization procedures and financial records in order to assess compliance to tax laws and verifying the true, fair, reliable, and accuracy of tax returns, and financial statements (ERCA tax audit directorate, 2010).

Tax administration is a complex and dynamic responsibility. On a regular basis, leaders are faced with new issues, conflicting priorities, taxpayer compliance and emerging commitments (Thomson 2008). Developing countries are in difficult situation to provide these basic public goods and services from taxes due to weak tax collection and administration (Damme, 2008).

## **1.2 Statement of the Problem**

Now a day in Ethiopia paying tax from what you earn is acritical issue for the ministry of revenues. Practical tax audit activity is very essential for all profitable and non-profitable organizations to achieve their set general and specific objectives and to attain vision by adding value. The quality of tax audit practically also influences the investment climate and private sector development. Most tax payers report their tax liabilities more accurately if they believe that the tax administration has the capacity to detect any un reported liabilities and that heavy penalty may be applied when they are detected (Biber,2010). Thus tax audit results in increased tax revenues through direct assessment of additional taxes and discouraging under reporting of liabilities by tax payers. Further Barreca and Ramachandran (2004) noted that the purpose of tax audit is to check the evasion of tax and ensure compliance in accordance with the laws and regulations. Firms considering investments are not only concerned about the formal tax system, but also about how the system works. As Bird (2008) noted, it is unquestionable to ensure that the revenue collected from tax should be raised in efficient and effective manner although it is difficult without fear or favor in countries that are politically fragile.

Under inadequate tax administration including insufficient and ineffective audit program, the potential amount of tax revenue in developing and transitional countries has not been collected in an efficient and equitable manner (Edmiston and Bird, 2004). The incapability of tax auditor might be due to the absence of using effective pre audit plan and inadequate audit training as well as their lack of willingness (Getaneh, 2011). Previous studies discuss the issue of tax audit in different perspectives and organizational setting. Some of the studies were: (Bibisso,2014) discuss tax audit performance in Hawassa city administration, (Abinet,2016) assessment of tax audit practice and its effect in increasing government's revenue in Ethiopia a case study in Ethiopian Revenues and Customs authority large tax payers branch office.

(Melat,2016) study on factors affecting tax audit effectiveness evidence from large tax payers branch office of Ethiopian revenue and customs authority and recently (Solomon,2019) studied on perception of tax audit practice: evidence from Ethiopian Revenue and Customs Authority Large Tax Payers Branch Office. Therefore, previous studies adequately discuss issues related to tax audit mainly large tax payer's branch office but how tax audit practice in eastern Addis Ababa small tax payer's branch in Ethiopian ministry of revenues in federal level.

Tax audit practice requires adequate knowledge about the tax policies and procedures to overcome tax revenue administration.

Most of the time small tax payers in Ethiopia have not sufficient knowledge how to pay the tax, when to pay even the rules and regulations the tax payer follows, on the other hand those who know the tax administration policies evading the tax from the government and the society is continued and also the small tax payer's financial system is not well structured to cut down the tax problems. To overcome this problem the government assign the tax audit. How the tax audit balances the taxpayers those who know the rules and regulations and those who didn't know the rules and regulations as a result, this research fills the gap by studying tax audit practice in Ministry of Revenues Eastern Addis Ababa Small Tax Payer's Branch Office.

## **1.3 Objectives of the Study**

### **1.3.1 General objectives**

The general objective of this research is to assess tax audit practice of Ministry of Revenues Eastern Addis Ababa small tax payer's branch office.

### **1.3.2 Specific objective**

Some of the specific objectives address in this research are:

- ❖ To identify weakness and strength of the tax audit program performed
- ❖ To examine the tax policy based on the good tax policy guiding principles
- ❖ To examine tax compliance behavior of the tax payer
- ❖ To describe the role of tax administration to the tax payer
- ❖ To assess criteria in selecting companies to perform tax audit

## **1.4 Significance of the Study**

The research has contributions for the ministry of revenues eastern Addis Ababa small tax payers branch office, tax auditors, and government tax policy makers. In addition the study contributes for the tax administrator as a base for planning based on the recommendations and the tax payers in eastern branch. Finally, the research may contribute for the researchers for further study related to this area.

## **1.5 Scope of the Study**

The scope of the study explains the extent to which the research area will be explored in the work and specifies the parameters within the study will be operating. This research covers tax audit practices on ministry of revenues Eastern Addis Ababa Small Tax Payers Branch Office due to insufficient time and resource to address outside Addis Ababa. The conceptual scope of the study generally assessed tax audit practices and specifically examine the tax audit approach, tax audit type, tax compliance, audit selection, audit program and good tax policy guidelines. To obtain relevant data the researcher uses survey method with questionnaire and depth interview.

## **1.6 Limitation of the Study**

In spite of the researcher's efforts to gather the necessary information as objective as possible, the analysis of this study was based on the opinion of respondents, so the respondent may not cooperate well to fill and gave all the necessary data.

The respondents don't consider the purpose of the study is for academic. Some respondents said that the data is confidential. This may in turn limit the ability to make broader generalization from the study suffered.



## **1.7 Organization of the Paper**

The paper organized in to five chapters. Chapter One includes introduction, objectives of the study, statement of the problem, significance of the study, scope and limitation of the study. The 2<sup>nd</sup> chapter shows related literature review. Research design and methodology presented in chapter three, which includes data collection techniques, sampling method and data analysis techniques. Then chapter four states data analysis and discussion, finally the paper focused on conclusion and recommendation.

# CHAPTER TWO

## 2.0 LITERATURE REVIEW

### 2.1 Taxation

In all over the world different countries have their own source of income to administer their society. One of the mechanisms in which countries raise revenue to finance government expenditure on goods and services is taxation, which is a compulsory charge or payment imposed by government on individuals or corporations without any expectation of direct return in benefit.

Taxes are compulsory payments associated with certain activities. Revenues collected through taxation are used to purchase the inputs necessary to produce government-supplied goods and services or to redistribute purchasing power among peoples (Hyman,2011). Most tax payers report their tax liabilities more accurately if they believe that the tax administration has the capacity to detect any unreported liabilities and that heavy penalty may be applied when they are detected (Biber ,2010). Weak tax administration can make unfair competition among taxpayers and cannot address the problem of tax avoidance and evasion (OECD, 2006). Taxes have been acknowledged as a major source of public revenue (Gbadago and AwunyoVitor, 2015). For that reason, states have been trying to implement and establish dynamic tax systems that will not only ensure the public revenues, necessary for the economic state functioning, but will also enhance citizens' trust towards governments in terms of fairness in the distribution of income tax burdens. Building on the above, tax compliance and tax accounting have been radically changing in most countries worldwide (Colon and Swagerman, 2015), while tax audit is currently at a crucial stage, as there is a growing demand for audit services (Carmichael et al., 1996; Karagiorgos et al., 2006).

### 2.2 Auditing

In this modern world of large -scale business and industry, auditing has come to be an inevitable function.

As many things in this contemporary world, the system of auditing has also developed through ages. Although auditing was practiced even in ancient times, the practice of auditing in its present form was established only in 2<sup>nd</sup> half of the 18<sup>th</sup> century.

Different authors define auditing some of them are (Clifford,2012) defines auditing is the examination of the books of accounts and financial statements of an organization to make sure that all the transaction have been recorded properly and they reveal the correct and true position of the organization as on a particular date.

According to (Spicer and Pegler,2012) “auditing is an examination of the books, accounts and vouchers of a business , as will enable the auditor to satisfy that the balance sheet is properly drawn up so as to give a true and fair view of the state of affairs of the business and whether the profit and loss account gives a true and fair review of the profit or loss for the financial period according to the best of his information and explanation given to him and shown by the books and if not, in what respect is not satisfied.”

## **2.3 Tax Audit**

Tax audit is an examination of whether a tax payer has correctly assessed and reported their tax liability and fulfilled other obligations. Tax audits are often more detailed and extensive than other types of examinations as general desk checks, compliance visits/reviews or document matching programs (OECD,2006a). This tax audit policy and strategy has been prepared to support the successful delivery of the ERCA Strategic Plan. Tax audit is one of the components of the compliance risk management strategy that is designed to support the delivery of the voluntary compliance concept.

Conducting tax audit involves significant costs to ERCA as well as to the taxpayer. Therefore, ERCA needs to use its limited tax audit resources very judiciously to achieve maximal taxpayer compliance, minimum intrusion, and minimum costs. This is best achieved by the development of a risk based audit program that rewards taxpayer compliance with a light touch approach and openly demonstrates that valuable taxpayer resource is being deployed against the non-compliant. The tax audit policy and strategy is designed to deliver the aspiration of helping customers pay the

right tax at the right time and with the minimal administrative and compliance cost to both ERCA and customers alike.

Tax audit is a critical and significant component of the compliance activities of tax administration by means of proper use of enforcing tax laws. It is the conduct by audit staff for the appropriate verification of selected tax payers whether correctly declaring the tax liabilities including a review of tax payers systems, books of accounts and other related information. It may include cross checking of tax payers' records with those of tax payers' suppliers or with other government departments and agencies sources of information. The shareholders are not the only party who are interested in the financial information pertaining to the enterprise. The management, the labourers, the creditors, the government, the tax authorities, etc. are also interested in getting the correct financial information regarding a particular enterprise. According to Birskyte, (2013), tax audit increases the revenue of the government directly and detect taxpayers who fail to fulfill tax obligation and may impose penalty and fines.

According to ERCA a tax audit is a systematic examination of business's relevant commercial system to determine whether a taxpayer's declaration states the tax liability correctly and complying with the provisions of the tax laws and related subsidiary legislations (ERCA audit manual,2014).

Barreca and Ramachandran (2004) noted that the purpose of tax audit is to check the evasion of tax and ensure compliance in accordance with the laws and regulations.

## **2.4 Types of Tax Audit**

Audits can vary in their scope and the level of intensity to which they are conducted. For this reason, various terminologies have evolved to describe different types of audit activity (Mugume, 2006). Different audits are performed by different organizations to achieve their objectives.

The types of audits are defined by three major factors, namely:

- a) The audit scope and intensity

b) The period(s) under examination

c) The location of the audit activity

The major types of audit in are performed in different sectors are described in the following sections

### **2.4.1. Full Audit**

A full audit is all-encompassing in scope and entails an in-depth examination of all information relevant to the calculation of a taxpayer's tax liability for all tax type for a given period. Given the broad scope, full audit (comprehensive audit) is typically costly to undertake in terms of time and resources, and thus reduces the rate coverage of taxpayers that could otherwise be audited. Comprehensive audit is classified into Very Complex, Complex and simple.

This classification will depend on a number of factors ranging from size, group, trade or profession, volume of records or transactions, nature of business to location. In practice, the scope and nature of any comprehensive audit activity to be undertaken will depend on the available evidence pointing to the likely risks of non-compliance and a taxpayer's history. An audit may also be classified and justified as complex or very complex because of the taxpayer's financial or business activities.

### **2.4.2. Issue Audit**

This is a limited scope audit that may be confined to specific issues in a tax return or a particular tax type. The objective here is to examine key potential risk areas of non-compliance.

This type of audit is recommended because it consumes relatively fewer resources than comprehensive audits and allows for an increased coverage of the taxpayer population. The audit will normally focus on a single tax type, period or item. Where a field issue audit escalates the case into a comprehensive audit, the team coordinator's concurrence must be sought and the procedures prescribed for comprehensive audits adhered. Issue audits may be conducted either on the Desk or in the Field

### **2.4.2.1. Desk Issue Audit**

This can be conducted in relation to specific issue(s) of a taxpayer or enterprise when the auditor is confident that all the necessary information can be ascertained by conducting an examination in the office.

All the required or relevant information or data may be accessed from internal sources or official reference without the need to contact the taxpayer.

### **2.4.2.2. Field Issue Audit**

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 to a tax type or period. Field issue audit is commonly used in examining whether a taxpayer has met his/her obligations in respect of payee, VAT/TOT and Excise tax, Withholding Tax or Income Tax normally for a specified tax period. Care should always be taken to guard against being derails and thus progressing field issue audits into comprehensive audits.

The objective of the field issue audit is to focus on a shorter period for a single tax item for a faster and effective outcome. This audit type should therefore be the commonest and most effective audit type to be utilized for faster results.

A desk audit is used as a preliminary examination of declarations analyzing accuracy, completeness, ratios and crosschecking information to determine if further audit or investigation is warranted. By implication, returns which are stated on certain level of risk.

In the case of Field-Issue Audits, the requirements are as follows:

- A Field Issue audit will ordinarily emanate from a desk review of returns and disclosures made by the taxpayer in financial statements, together with any privileged third-party information;

- A Field-Issue audit will normally target an issue in a particular tax head and cover a specified period, depending on the tax head under review;
- A specific issue(s) must be identified and the field activity must be sanctioned by the Team coordinator;
- A Field-Issue audit must involve a review of the taxpayer's primary records relating to the identified subject matter at the taxpayer's premises or in the tax office, as the case may be;
- Documentation in respect of the specific review must be kept in a separate file folder;
- The Standard Audit Working Papers must be used to report the specific review activity. Additional reporting on the field assignment may be provided where the case warrants.

### **2.4.3. Special Audit Projects**

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.

### **2.4.4. Advisory Visit Audits**

All registered taxpayers or businesses need to be visited with the aim of offering advice on tax obligations and the taxpayer's rights, and any other developments pertinent to the tax system and administration.

It is highly recommended that auditors carry out these audits to keep abreast with compliance trends of their taxpayers and offer timely advice so as to improve compliance. These audits are expected to be spontaneous and hence should not take more than a day.

### **2.4.5. Refund Audits**

This is the verification of a taxpayer's claim for a tax refund prior to processing the refund. The predominant claim for refund is VAT and/or WHT which is submitted monthly. The details are specified in the Refund Guidelines.

### **2.4.6. Investigation Audit**

Involves the most serious cases of non-compliance with Criminal implications. Require special skills in investigation and evidentiary requirements as they often involve seizure of records, taking testimonies from witnesses and preparing briefs for courts.

### **2.4.7. De-Registration Audits**

In order to establish outstanding obligations or liabilities, a de-registration audit will be conducted for all reported cases of cessation of business, winding up or uncertainty.

The audit will focus on determining taxes due and any other pertinent issues. The objective of de registration audit is to ensure orderly exit from the tax register with the attendant obligations and liabilities sorted out.

## **2.5 Audit Approaches and Evidences**

### **2. 5.1 Audit Approach**

Audit approaches are the methods or techniques that auditors use in their audit assignments. Both internal and external audits apply audit approaches to conduct their audit activities differently based on the nature of engagement, scope, nature of the client's business, and risks. Selecting the right audit approach is important. It can help the auditor to improve audit performance in terms of efficiency and effectiveness.

The right audit approach could also help auditors to focus on the highest risk areas and pay less effort on the low risk areas. Different audit firms might use different audit approach to perform their audit testing.



The approach adopted by auditor to specified audit assignment will be a key factor in determining outcome of the audit. If auditors fail to adopt the correct audit approach then the likelihood of audit failure increases, failure which could lead to a damaged reputation and potentially costly for ERCA and taxpayer.

Essentially there are four different audit approaches:

1. The substantive procedures approach
2. The balance sheet approach
3. The systems-based approach
4. The risk-based approach

### **2.5.1.1. The Substantive Procedures Approach**

This is also referred to as the vouching approach or the direct verification approach. In this approach, audit resources are targeted on testing large volumes of transactions and account balances without any particular focus on specified areas of the financial statements.

### **2.5.1.2. The balance Sheet Approach**

in this approach, substantive procedures are focused on balance sheet (statement of financial position) accounts, with only very limited procedures being carried out on income statement/profit and loss account items. The justification for this approach is the notion that if the relevant management assertions for all balance sheet (statement of financial position) accounts are tested and verified, then the profit/loss figure reported for the accounting period will not be materially misstated.

### **2. 5.1.3. The Systems-Based Approach**

This approach requires auditors to assess the effectiveness of the internal controls of an entity, and then to direct substantive procedures primarily to those areas where it is considered that systems

objectives will not be met. Reduced testing is carried out in those areas where it is considered systems objectives will be met.

#### **2.5.1.4. The risk-based approach**

In this approach, audit resources are directed towards those areas of the financial statements that may contain misstatements (either by error or omission) as a consequence of the risks faced by the business. ERCA is emphasizing the risk-based approach. So every audit will be directed towards this approach, which is more explained as given the nature of the audit process, every audit assignment presents a different challenge to tax administrator with no two audit assignments being the same. For example, no two entities are the same in terms of business sector, location, size, employees, governance issues, ethos, and complexity of operations. There is no one single approach to auditing which ensures the performance of a perfect audit. However, it is generally accepted that for most entities of size, the risk-based audit approach will minimize the possibility of audit objectives not being met. Auditors to adopt a risk-based approach to audit in so doing, it requires auditors to make risk assessments of material misstatements at the financial statement and assertion levels, based on an appropriate understanding of the entity and its environment, including internal controls. Risk based approach is the popular audit approach because this approach could help the auditor to work in the key concerning areas and minimize the audit risks.

#### **2.5.2. Audit Evidence**

Audit evidence is all the information used by the auditor in arriving at the conclusions on which the re-assessment of tax returns and includes the information contained in the accounting records underlying the financial statements and other information. A considerable amount of the audit team's work consists of obtaining, examining and evaluating evidential matter. The measure of the validity of evidence for audit purposes lies in the nature of the evidence and the judgment of the audit team. Auditors are not expected to examine all information that may exist

## **2.5.3 Types of Audit Evidence**

. Audit evidence may be categorized as follows.

- Physical
- Documentary
- Inquiry
- Analytical
- Confirmation
- Recalculation
- Re-performance

### **2.5.3.1 Physical Evidence**

Physical evidence is obtained by direct inspection or observation of activities of people, property or events. Such evidence may be documented in the form of memorandum summarizing the matters inspected or observed photographs, charts, maps or other types of physical evidence. When possible, important inspections or observations should be made at least by two assigned auditors.

### **2.5.3.2 Documentary**

Documentary evidence consists of information such as accounting records, invoices, letters, contracts and management information on performance. It includes internally generated documents prepared by the tax payer and third-party documents.

### **2.5.3.3 Inquiry**

Inquiry consists of seeking information of knowledgeable persons, both financial and nonfinancial, inside or outside the entity. Inquiry is an audit procedure that is used extensively throughout the audit and often is complementary to performing other audit procedures.

Inquiries may range from formal written inquiries to informal oral inquiries. Evaluating responses to inquiries is an Integral part of the inquiry process. Inquiry normally involves:

- Considering the knowledge, objectivity, experience, responsibility, and qualifications of the individual to be questioned.
- Asking clear, concise, and relevant questions.
- Using open or closed questions appropriately.
- Listening actively and effectively.
- Considering the reactions and responses and asking follow-up questions.
- Evaluating the response.

In some cases, the auditor should obtain replies to inquiries in the form of written representations from management. For example, when obtaining oral responses to inquiries, the nature of the response may be so significant that it warrants obtaining written representation from the source. Responses to inquiries may provide the auditor with information not previously possessed or with corroborative audit evidence. Alternatively, responses might provide information that differs significantly from other information that the auditor has obtained, for example, information regarding the possibility of management override of controls. In some cases, responses to inquiries provide a basis for the auditor to modify or perform additional audit procedures.

The auditor should resolve any significant inconsistencies in the information obtained. The auditor should perform audit procedures in addition to the use of inquiry to obtain sufficient appropriate audit evidence. Inquiry alone ordinarily does not provide sufficient appropriate audit evidence to detect a material misstatement at the relevant assertion level. Moreover, inquiry alone is not sufficient to test the operating effectiveness of controls. Although corroboration of evidence obtained through inquiry is often of particular importance, in the case of inquiries about management's intent, the information available to support management's intent may be limited. In these cases, understanding management's past history of carrying out its stated intentions with respect to assets or liabilities, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide relevant information about management's intent.

### **2.5.3.4 Analytical**

Analytical evidence is obtained through analysis or Verification of information. Analytical evidence can consist of

- ✓ Computations (anything reducible to numbers)
- ✓ Comparisons with
  - Prescribed standards
  - Past operations
  - Other operations, transactions or performances
  - Laws or regulations
  
  - Legal decisions

### **Analytical Procedures**

Analytical procedures consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data. Analytical procedures also encompass the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts. An analytical procedure might be examining, which is the auditor's use of professional judgment to review accounting data to identify significant or unusual items and then to test those items. This includes the identification of abnormal individual items within account balances or other data through the reading or analysis of entries in transaction listings, subsidiary ledgers, general ledger control accounts, adjusting entries, suspense accounts, reconciliations, and other detailed reports.

### **2.5.3.5 Confirmation**

Confirmation, which is a specific type of inquiry, is the process of obtaining a representation of information or of an existing condition directly from a third party. For example, the auditor may seek direct confirmation of receivables by communication with debtors. Confirmations are

frequently used in relation to account balances and their components but need not be restricted to these items. A confirmation request can be designed to ask if any modifications have been made to the agreement, and if so, what the relevant details are. For example, the auditor may request confirmation of the terms of agreements or transactions an entity has with third parties. Confirmations also are used to obtain audit evidence about the absence of certain conditions, for example, the absence of an undisclosed agreement that may influence revenue recognition.

### **2.5.3.6 Recalculation**

Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation can be performed through the use of information technology, for example, by obtaining an electronic file from the entity and using Computer Assisted Audit techniques /CAATs/ to check the accuracy of the summarization of the file.

### **2.5.3.7 Re-performance**

Re-performance is the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control, either manually or through the use of CAATs, for example, re-performing the aging of accounts receivable.

## **2.6 Audit Program**

The role of audit Program in modern tax administration must extend beyond merely verifying a tax payer's reported obligations and detection of discrepancies between tax payer's declaration and supporting documents.

An audit program is a written scheme of the exact details of the work to be done by the auditor and his staff in connection with a particular audit.

Meigs defines an audit program as "a detailed plan of the auditing work to be performed specifying the procedures to be followed in verification of each item in the financial statement and giving the estimated time required" (Clifford ,2012)

A well-managed audit program plays a major role in:

➤ **Managing compliance:** an effective Audit Program will have significant wider impacts than just raising revenue directly from audit activities. By selecting highest risk cases, efficiently detecting non-compliance, applying appropriate sanctions and publicizing results of audit activity (either generally or specifically), tax payer is put on notice that attempting to avoid that result in a high likelihood of detection and imposition of significant sanctions. There by a well-planned audit program can provide the administration with significant leverage across the community rather than only impacting on the tax payer selected for audit and collecting the tax that should have been paid the first place. Additionally, a tax system that is perceived to be fair and equitable by punishing tax payers who don't comply builds community confidence and encourage compliance from the broader population as compliant tax payers support the administration's efforts to deal with noncompliance. The impact of an effective audit program can be seen in terms of the following effects:

- 1) Corrective-making adjustments to rectify instances on non-compliance
- 2) Deterrent - influencing the behavior of the audited tax payer to be compliant in the future
- 3) Preventive-persuading the broader community to comply

➤ **Improving Effectiveness of other parts of administration:** as well as detecting and addressing non-compliance audit program can provide valuable support on the following areas:

- **Information and intelligence:** by having extensive access to the business community, the audit program can gain a lot of information and intelligence that may inform the revenue administration of practices that may be jeopardizing compliance and revenue collection.

This information is critical to the development of appropriate treatment strategies in other parts of administration for example, tax payer service, policy and legislation, collections and filling and payment enforcement.

- **Addressing deficiencies in the law:** Auditors will often detect tax payer practices that exploit weakness in the law.

- Law clarification and education: the audit program plays an important part in clarifying the law and educating tax payers on appropriate compliance measures such as legal filing requirements, deductibility of expenses and improved record keeping. As well as providing direct guidance to tax payers during audit activity, the audit program may refer common areas of non-compliance to the tax payer services program managers so that they can be addressed in wider tax payer education initiatives.

### **2.6.1 Audit Selection Methods**

Audit selection is an issue for achieving the objectives of the government whether the right tax auditor or the right tax payer. As a result key to success for audit selection has its own program objectives. Tax administration with limited resources and relatively large numbers of tax payers to administer (especially in small and medium tax payers) must design the audit program to deploy audit resources in a risky based way with view to achieve the most possible compliance and revenue objective (Thomson 2008; OECD200a). An important issue in audit case working is the assignment of the case to an auditor. In revenue bodies with smaller local offices, the workload available may be the key attribute for allocation. In large offices more emphasis is placed upon the matching process of pairing the type or complexity of a tax return with the skill level of the auditor. In situations where a local auditor doesn't have sufficient skills. Such specialists receive supplementary training with a primary focus in the intended areas of expertise. The duties are generally:

- ✓ Acting as affront line auditor mainly conducting audits with in the particular industry or segment for which received the training and
- ✓ Acting as consultant – providing assistance to other auditors with respect to any audit activities associated with their specialization, or a reviewers inspecting the quality of all audits conducted in that area. In order to avoid misuse of audit function and possible criticism of the revenue body under no circumstances auditors can be given discretion to select their own audit cases.



Compliance risk is the failure to comply with the tax law by tax payers whether due to their ignorance, carelessness, recklessness and deliberate evasion in tax administration itself. Hence, managing an effective auditing program involves decision as to the selection of best audit case strategy or combination of strategies. According to Barreca and Ramachandran (2004), audit selection methods range from simple random selection to more complex rule-based selection, sophisticated statistical and data mining technique. The common case selection methods include random selection of cases, screening or case review by auditors, rule base and automated risk scoring, and data mining and statistical analysis.

### **Random Selection**

Random selection is precise scientific procedure where by each tax payer has equal chance of selection for inclusion in a sample to be audited. It has no bias in audit selection, and useful to fight corruption. This method is perceived as faire by tax payer. However, it clearly not focused on highest risks, may have high opportunity cost if used as sole selection method (vellutini, 2010). It has problems on away that honest and dishonest tax payers are treated equally and highest risk areas and lowest risk areas also treated in the same way.

### **Screening or case review by auditors**

It is the traditional method by which audit cases have been selected and dates from the time when there was little or no IT support, the data available was in any case limited, and the compliance risk.

According to OECD (2004a), the challenges inherent in relying on case workers selection are:

It relies on limited data set with no systematic cross reference to other data available within the administrations system; case workers regardless of their experience can miss aspects of no-

compliance with which they are not familiar. Modern standards of propriety indicated that there should be a gap between those selecting cases and those functioning cases.

### **Data Mining and Statistical Analysis**

Statistical Analysis and data mining address the broad area of data analysis including statistical approaches, machine learning, data mining, and applications. It is commonly applied for analyzing massive and complex data sets. It also involves using prior tax audit results, which are then analyzed in conjunction with tax payer data.

## **2.6.2 Audit Examination Techniques**

A tax auditor applies various techniques to examine the books and records behind a return. The techniques to be used depend on the tax payer and the tax regime concerned. As Biber (2010) noted, an effective case plan can be cognizant of range of investigative and analytical approaches that may vary depending upon the level of risk and the circumstances of the particular tax payer. The decision regarding the type of tests to be undertaken as well as the records needed by the auditor to address specific issue is influenced by nature of tax payers' operations, adequacy of books and records, and materiality of potential adjustments.

According to OECD (2006a), the techniques used for audit examination purposes include analytical review, investigative approach, field examination, record examination, and counterpart examination

**Analytical review:** An analytical review of financial statements and returns are often completed during the preliminary stages of the audit. Ratios, such as gross profit and inventory turnover, are used to test the accuracy of taxpayers' reported sales, cost of sales, or ending inventory.

The unusual variances (abnormal deviation of calculated ratios from the previous experience) are noted and addressed during the interview with the taxpayer and additional audit procedures developed where necessary.

**Investigative approach:** Auditors are encouraged to use an investigative approach in their audits. Such an approach uses information obtained through observation, discussion, documents or records obtained from either the taxpayer or other sources. It requires judgment, imagination and using information outside the accounting records to perform the audit.

**Field examination:** This is utilized when information gathered on significant events such as underhand trade, disguised transaction and other data concerning transactions. The examination also includes on sight survey of the current conditions of the taxpayer's business through physical checks of original transaction records and vouchers, assets and liabilities and other aspects of the business.

**Record examination:** The main approaches to detect false accounting include the examination of books and documents conducted at the taxpayer's business office or branches, counterpart examinations and examination of savings and deposit accounts.

**Counterpart examination:** It is an examination performed based on third party information where warranted. As OECD (2006a) stated, information can be obtained during the course of an audit from third parties to verify the taxpayer's income, for example:

- ❖ Financial institutions and public companies information on interest and dividends matched with what taxpayers' report in their tax return;
- ❖ Information from Government regarding social benefit payments, and employer information concerning salary and wages paid and tax deducted, both for income and non-monetary benefits; and
- ❖ Matching foreign source income.

## **2.7 Guiding Principles of Good Tax Policy**

Discussions occur regularly among politician, economists, tax practitioners, and others about changing national and substantial tax systems.

Any suggestions for modifying tax rules-whether major or minor raises the question of how to best analyze and compare proposals as such widely accepted principles provide an objective approach for evaluating and improving existing tax rules.

One of the mechanisms in which countries raise revenue to finance government expenditure on goods and services is taxation, which is a compulsory charge or payment imposed by a government on individuals or corporations without any expectation of direct return in benefit. To raise revenue through taxation there should be a good tax policy. The American Institute of Certified Public Accountants developed guiding principles to say a good tax policy, which avoids distortion of economic activity. The guiding principles are:

### **2.7.1 Equity and Fairness**

Similarly situated taxpayers should be taxed similarly. This includes horizontal equity (tax payers with equal ability to pay should pay the same amount of taxes) and vertical equity (tax payers with greater ability to pay should pay more taxes).

### **2.7.2 Certainty**

Tax rules should clearly specify when and how tax is to be paid and how the amount will be determined. Certainty may be viewed as the level of confidence a person has that a tax is calculated correctly.

### **2.7.3 Convenience**

Tax should be due at a time or in a manner most likely to be convenient to the tax payer convenience helps ensure compliance. The appropriate payment mechanism depends on the amount of the liability, and how easy or difficult it is to be collected. Those applying this principle should focus on whether to collect the tax from manufacturer, wholesaler, retailer or customer.

The more difficult a tax is to pay, the more likely that payment will not happen. Typical payment mechanisms include withholding and periodic payment of estimated tax liability.

The appropriate payment mechanism should depend on the amount of the liability and ease of collection as well as the equity of collection from tax payers. And also consideration of appropriate use of secure technology is important

### **2.7.4 Economy of calculation**

The cost to collect tax should be kept to a minimum for both the government and the tax payer.

### **2.7.5 Simplicity**

Tax payers should be able to understand the rules and comply them correctly and in a cost-efficient manner. A simple tax system better enables tax payers to understand the tax consequences of their actual and planned transactions, reduces errors and increases respects for that system. Now day's ministry of revenue gives a chance for the tax payers to know the rules and regulations of the tax.

### **2.7.6 Neutrality**

The tax laws effect on a tax payer's decision whether or how to carry out a particular transaction should be kept to a minimum. A tax systems primary purpose is to raise revenue for governmental activities rather than influence business and personal decision (behavior).

### **2.7.7 Economic growth**

A tax system should not impede productivity but should be aligned with the taxing jurisdiction economic goals. The system should not favor one industry or type of investment at the expense of others.

### **2.7.8 Transparency and Visibility**

Tax payers should know that a tax exists and how and when it is imposed on them and others. Tax payers should be able to easily determine the true cost of transactions and when tax being processed or paid and on whom

## **2.7.9 Appropriate government revenues**

A tax system should enable the government to determine how much tax revenue it likely will collect and when it collects that is the system should have some level of predictability and reliability.

## **2.7.10 Minimum tax gap**

Structuring tax laws to minimize noncompliance is essential. The tax gap is the difference between taxes that are owed any taxes that are voluntarily paid. A tax gap exists with any tax for variety of reasons such as intentional errors (no filing, under reporting of income, over statement of deductions, and omissions of transactions) and un intentional errors (match mistakes and lack of understanding of the rules).

The above policies are valuable for all tax types (direct or indirect taxes).

## **2.7.11 Effective tax Administration**

Costs to collect a tax should be kept minimum for both government and tax payers. Minimizing administrative and compliance cost is critical.

These costs include the administrative cost to the government that is influenced by the number of revenue officers necessary to administer the tax. Consideration of tax payer compliance costs is also a must. This principle is closely related to the principles of simplicity. The more complex a tax, the greater the compliance costs for tax payers to determine and report their tax liability

## **2.8 Risk Assessment**

The tax administration has not sufficient resources to control all the tax payers' transactions. Instead the tax administer follows risk management methodologies by allocating the scare resources in order to achieve an optimal compliance strategy. Risks are those events that could negatively impact on an organization's ability to deliver on its mission. Risk assessment must therefore be an integral part of the entire audit process and should involve: -

- ✓ a review of the economy to identify risk-prone sectors;

- ✓ a review of the sectors to profile the various operators therein; and
- ✓ a profile of the operators in order to identify risky trends or behavior.

Risk assessment should also involve a review of the internal systems within an organization to obtain a picture of any in-house factors that influence the non-attainment of audit objectives. The adoption of risk-based approaches goes beyond audit case selection and applies to more than direct revenue risk. A tax administration will usually have as part of its objectives, the need to deliver a certain amount of revenue to the government to meet budget objectives, but this will usually be supplemented by other objectives such as: improving compliance; maintaining expenditure within a specific budget; minimizing taxpayer compliance costs; and maintaining community confidence in the tax system (often an important political objective). The administration therefore has to manage the risks of failing to achieve each of these objectives and not just the risk of non-compliance. From an audit perspective, management needs to complement the administrations objectives. This requires a review of all activities related to the audit program, and to assess the value they add to meeting the administration's objective. Only by having a clear understanding of the objectives, is it possible to formulate a risk-based approach? As resources are limited, the administration needs to allocate resources to activities that will provide the greatest impact on the achievement of objectives; this usually means gaining the biggest improvements in voluntary compliance at the lowest cost to both the taxpayer and the administration, while maintaining community confidence in the tax system. If activities performed that do not contribute to the attainment of these objectives, management needs to reconsider the performance of such activities.

As there are likely to be more risks identified than can be adequately addressed by the administration, it is necessary to rank and prioritize the risks according to the likelihood and consequence of their impact on the objectives.

## **2.9 Tax Compliance**

Mobilizing revenue is a way for governments' to create fiscal space, provide essential public services, and reduce foreign aid and single resource dependence. Rahayu (2010) explained that tax compliance is a condition in which the taxpayer au meets all its tax obligations and performs the taxation. The underlying problem of low compliance can be caused by many things but the most important thing here is that there is no data on the taxpayer compliance (Marziana, 2010). The

low taxpayer compliance rate will generate a greater difference between the amount of paid tax and the amount of payable tax; this difference will cause a loss of the state revenue. The implementation of tax compliance at this time seems to still merely reflect the formal compliance of tax. Although taxpayer non-compliance is a continual and growing global problem (McKerchar and Evans 2009), Dealing with the problem of tax evasion requires at least some understanding of the factors underlying the individual taxpayer's decision whether to pay or evade taxes. However, little is known about tax compliance behavior in developing countries (Andreoni et al. 1998; D'Arcy 2011; Fjeldstad and Semboja 2001). More systematic and coherent information on taxpayer attitudes are therefore required for better analysis and a more informed tax policy design. An increase in the perception of individuals about the difficulty of evading taxes is found to increase the likelihood of tax compliant attitude in small tax payers. Understanding taxpayer attitudes and behavior: theoretical foundations Models of taxpayer behavior, including the decision whether or not to pay taxes, tend to reflect one of five theories that can be referred to as: (1) economic deterrence; (2) fiscal exchange; (3) social influences; (4) comparative treatment; and (5) political accountability.

These are to some extent interconnected, and some represent an evolution of others. Economic deterrence The economic deterrence theory states that taxpayer's behavior is influenced by factors such as the tax rate determining the benefits of evasion, and the probability of detection and penalties for fraud which determine the costs (Allingham and Sandmo 1972; Becker 1968).<sup>2</sup> This implies that if detection is likely and penalties are severe, few people will evade taxes.

In contrast, under low audit probabilities and low penalties, the expected return to evasion is high. The model then predicts substantial noncompliance. Although the model has been criticized for focusing exclusively on the coercive side of compliance, at the expense of the consensual (Sandmo 2005)<sup>3</sup>, there is some evidence to support the relevance of deterrence strategies to addressing non-compliance (McKerchar and Evans 2009). For example, the fear of getting caught, or the probability of detection, has been found in some contexts to be an effective strategy to induce truthful behavior. The theoretical principles of economic deterrence have also been widely adopted by tax administrations when developing enforcement strategies that rely principally on penalties and the fear of getting caught.



Fiscal exchange: the fiscal exchange theory suggests that the presence of government expenditures may motivate compliance and that governments can increase compliance by providing goods that citizens prefer in a more efficient and accessible manner (Cowell and Gordon 1988; Levi 1988; Tilly 1992; Moore 2004; 1998).

Alm et al. (1992) note that compliance increases with (perceptions of) the availability of public goods and services. Accordingly, the main concern of taxpayers is what they get directly in return for their tax payments in the form of public services. In this perspective, taxation and the provision of public goods and services are interpreted as a contractual relationship between taxpayers and the government (Moore 2004). Individuals may pay taxes because they value the goods provided by the government, recognizing that their payments are necessary both to help finance the goods and services and to get others to contribute (Fjeldstad and Semboja 2001). The existence of positive benefits may increase the probability that taxpayers will comply voluntarily, without direct coercion. Although most taxpayers cannot assess the exact value of what they receive from the government in return for taxes paid, it can be argued that they have general impressions and attitudes concerning their own and others' terms of trade with the government (Richupan 1987). It is then reasonable to assume that a taxpayer's behavior is affected by his/her satisfaction or lack of satisfaction with his/her terms of trade with the government.

## **2.9 Tax Payers Awareness**

Conducting effective tax payers 'awareness, business owners gain more knowledge of tax and it is advantages for them to comply voluntarily. On the other hand, the failure to create awareness for the tax payers result of continues failure of tax payers to comply voluntarily in payment of taxes its consequence in painful losses to the government.

Alabede et al. (2011) belied that consciousness is a will accompanied by action from reflection to reality.

Tax payer awareness is an effort or action accompanied by self-encouragement and willingness to perform the rights and obligations of taxation in accordance with the regulations. Tax payer awareness is understood if the tax regulation has been known, acknowledged, respected and obeyed. If the tax regulation is still limitedly known, then the tax payers' awareness is still low.

The low awareness of tax payer is suspected to be caused by minimum knowledge and knowing tax rules and regulations. Nurgroho and Zulaikha (2012) examined the factors that influence the willingness to pay tax with the awareness of paying taxes as an intervening variable. The results showed that the variables, knowledge, understanding of tax rules and regulations, quality tax services and perceptions of taxation effectiveness have significant influence on the awareness of paying taxes.

Continues tax payers' education and awareness about the rights and obligations build good relationships between tax payers and tax authority, which creates citizens who have better understanding about tax, bring about honest and voluntary compliance. Diana (2016) argued that improving tax payers' attitude enhances the tax compliance behavior and the recommended that future researches will emphasis on mechanisms of enhancing tax payers' attitude. Tax practitioners prepares financial reports, that indicates a tax return or other data for declaration to tax authority.

On the financial report filling the tax payer is accountable and responsible to the accuracy. Munari (2005) examined that tax payers experience awareness when they:

- ✓ Know the existence of laws and provisions of taxation
- ✓ Know the function of paying tax to the state, understand the rights and obligations to be implemented, count, pay and report voluntarily; calculate, pay and report taxes correctly.
- ✓ The indicators of tax payers' awareness is measured by knowing tax functions, understanding tax payers' rights and obligations, being able to calculate taxes, being able to pay taxes, and being able to report taxes on timely.

## **2.10 Empirical Studies**

In this part the researcher tried to revise some researches which are done in different countries in the area of tax audit and has summarized as follows.

Some of the studies done in Ethiopia regarding to the tax audit are

- (Bibisso, 2014) tax audit performance in Hawassa city administration.

The researcher's methodology used both qualitative and quantitative research approach. The researcher uses primary and secondary data and analyzes the quantitative data by SPSS and qualitative data by using descriptive analysis techniques. The results the researcher gets that the audit type the Hawassa city administration exhaustively conducted comprehensive audit type to ensure compliance on tax payers selected by risk criteria. The findings of the researcher show that comprehensive audit to ensure compliance behavior of tax payer and desk audit for data cleaning.

- (Getaneh, 2011) examined the problems in tax audit practice in Ethiopia (the case of the federal government). The study was conducted to investigate the tax audit practice, and to identify the main problems of the tax audit program performed that affects tax revenue collection and taxpayers' voluntary compliance in the Ethiopian tax system. The study adopted both quantitative and qualitative approaches. Specifically, the techniques used in the study include survey with tax auditors and investigators, in-depth interviews with tax officials and taxpayers, and documentary analysis.
- (Abinet ,2016) assessment of tax audit practice and its effectiveness in increasing government revenues in Ethiopia: a case study in ERCA, LTO

The research used a descriptive research design and analysis data using SPSS. The results show that the relationship between amount before audit and after audit is no statistically significant. The findings include that weak trend in awareness raising activity for tax payers, manual based tax auditing system and high turnover of experienced tax auditors. The research as indicated that reason out the focus of the large tax payer office on the basis of annual tax collection and well-organized office existence.

- (Melat,2016) study on factors affecting tax audit effectiveness evidence from LTO of ERCA (based on auditors' perception) on this research the study was adopted mixed research approach and for data collection followed a survey method with interview and questionnaire. The sampling method applied is simple random technique. The results showed in analysis was there is no statistical significance negative relationship between auditee attributes and tax audit effectiveness. Besides, the results showed that Tax Audit Effectiveness of Large tax payer's office is highly affected by audit quality of the department, managements support and the

organizations independence from unethical practices. While as auditor's perception it doesn't be affected by organizational setting and auditees attribute. Findings of the research indicated that majority of the respondents replied that, most taxpayers may not cooperate to the tax system and the tax auditors without knowledge of sufficient tax laws and regulations, according to this perception, auditors penalize taxpayers instead of educating them, low level honest taxpayers, and also deliberately taxpayers do not support the tax auditors during the audit.

It can be concluded that most taxpayers are noncompliance as result they impeded the tax audit effectiveness.

- (Gelete ,2019): The effect of Tax Audit on Tax Compliance: In the case of Burayu City Administration Revenue Authority. The researcher used quantitative methods and the sampling technique were purposive. The researcher finds out that if the tax rate is too high, tax payers evading tax in addition that there is no a well-established strategy that make Tax Auditors competent and efficient on their job on continuous bases.
- (Solomon,2019) study on perception of tax audit practice: evidence from ERCA, LTO the study adopted mixed method approach in order to answer research questions and achieve the research objectives. Specifically, the techniques used in the study include survey with tax auditors, interviews with tax audit head and documentary analysis.

The result of study shows that ERCA audit case selection is not based on the availability of resource for tax audit. Regarding taxpayers' characteristics during tax audit practice, Tax payers were not cooperate 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. The managements were not cooperating as well as did not have job security.

Moreover, the branch did not facilitate short and long term trainings in any business sector.

- (Beyene Y., Deresse M. and Mathewos W. ,2019) effectiveness of tax audit: a study in Kembata Tembaro Zone, Southern Ethiopia. Research methodology- both qualitative and quantitative research methods have been employed. The sampling techniques used for the research were purposive sampling. The researcher finds out that management support, audit quality, taxpayers' awareness, and standardized integrated government tax administration system have statistically significant positive effect on audit effectiveness, while tax law complexity and tax accounting and reporting have statistically significant negative effect on tax audit effectiveness.

Other empirical studies in regarding to tax audit practice in the foreign countries are summarized as follow as

- (Suhirman Madjid ,2015) The Effect Tax Audit Quality and Service Quality on Tax Reporting Compliance (The cases of tax audit of Indonesian) on this journal articles the researcher showed the results that the tax audit, quality of service doesn't affect the tax reporting compliance. The method used in the study was exploratory study because it is a study that only inspects or investigates the proposed variables (Cooper and Schindler, 2006).
- (Al\_Frijat, 2013) The objective of the study was to show the tasks to be performed by AIS in the income tax department to improve the effectiveness of tax audit and collection. The researcher uses descriptive analysis and quantitative analysis. Data was collected through interviews with senior managers and review of previous articles and recent official reports of income tax authority. The finding of the study shows that the study found that the AIS used in the income tax department positively influenced the effectiveness of tax audit and collection due to the existence of qualified human resources, an advanced computer system and competent control system.
- (George Drogalas, 2015) The main objective of the study was to examine the relationship between tax audit effectiveness, tax legislation and the use of specialized information system tools. The study has two hypothesizes; The extent

of Information System (IS) effectiveness has a positive effect on Tax Auditing Effectiveness and The extent of Tax Legislation has a negative effect on Tax Audit Effectiveness. The research design is based on a questionnaire. Survey methodology is used as one of the most appropriate methods in the collection of primary data. Structured questionnaire was used. Over 200 questionnaires were sent to 205 tax auditors 93 complete questionnaires were returned, representing a response rate of 45.3 per cent. The data was analyzed with the use of the SPSS software. Factor Analysis and multiple regression analysis were employed in order to examine the hypotheses. The finding of the study shows that There is a positive and significant relationship between “Information Systems” and “Tax Infringements Tracking” and Tax Legislation” found be negative and significant associated with” Tax Infringements Tracking.

- (Burcu Gediz Oral and Ferhan Sayın, 2015), Aiming to determine the relationship between corruption and tax auditing during the period of 1985-2011 in Turkey, the study determines the relationship between the variables using the Vector Autoregressive (VAR) Analysis. The results from VAR Granger Causality Test indicate that audit rate variable has an impact on the corruption index and also corruption index variable on the share of the tax revenues in the general budget revenues. The Variance Decomposition Analysis results used in order to determine the most effective of the variable on those in the model show that corruption variable acts as an exogenous variable in the short-term. In other words, corruption is not affected by other variables in the short term. Changes in index of corruption are largely due to the corruption itself and audit rate in the long term. However, results of Impulse-Response Analysis to show whether the effective variable could be used as an effective policy instrument indicate that variable likely to be in audit rate could be positively effective for the mid-term while it could decrease in the long run. In other words, the tax audit reduces corruption in the long term
  
- (George, Sorros, Karagiorgou and Diavastis 2015) Tax audit effectiveness in Greek firms: Tax auditors’ perceptions

The researchers examine the relationship between tax audit effectiveness, tax legislation and the use of specialized information system tools. The researcher uses the ability of public tax auditors to track tax infringements as a measure of tax audit effectiveness. The researchers result shows that effective information systems help tax auditors to track tax infringements. On the contrary, complexity and constant changes in tax legislation, makes it difficult for tax auditors to be effective in their work. Furthermore, level of education, work experience and training of tax auditors enhance their ability to track tax infringements. The findings are of particular interest to Greek tax authorities, providing additional insight into the factors that affect “Tax Infringement Tracking” from the perspective of expert employees, who work in Greek public taxation agencies. Moreover, to the best of the authors’ knowledge, it is the first time that “Tax Infringement Tracking” is quantitatively examined from the standpoint of taxation agency employees.

In general, the empirical studies are over viewed in the above from that the Ethiopian researches mostly addresses on the large tax payer branch office, there is difference between the Small tax Payers tax declaration liability. Some of the differences that large tax payers report the tax liability with E-tax system but the small tax payers report the tax with hard copy and the tax collector checks the documents but in large tax payers the tax collector doesn’t check documents in the reporting period. The report of the large tax payer is based on the interest in that reporting period. Even there is no studies on ministry of revenues eastern Addis Ababa small tax payers.

The tax audit practice of Ethiopia and foreign countries may difference in its applicability to the tax payers on away that tax policy influence, awareness issues, rules and regulation difference, geographical location to address tax audit type and political issues may consider.

## **CHAPTER THREE**

### **3.0 RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 INTRODUCTION**

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions. The research design on this research used is a survey in which it is a system for collecting information from or about people to describe, compare, or explain their knowledge, attitudes, and behavior. The sampling method followed is probability method in which the census is used. The data the researcher used is primary and secondary data. The primary data are interview and questionnaire whereas the secondary data are books, articles, researches, different publication materials and internets.

#### **3.2 Research Approach**

Research approach is a plan and procedures that consists of the steps of broad assumptions to detailed method of data collection, analysis and interpretation. Based on the nature of the research problem being addressed different approaches of data analysis is used. The approaches are qualitative, which is associated with the socially constructed nature of reality. The quantitative approach involves collecting and converting data into numerical form so that statistical calculations can be made and conclusions drawn.

On the other hand, the mixed approach is as the name indicates using both qualitative and quantitative for research. As a result, the researcher uses the mixed approach to address the research problem

#### **3.3 Population**

On this research the total population were all tax audit and management members on the highest position by using census method to collect the data. so that The researcher address 76 tax audit staffs and management members out of the total employees of MOREASTO.



## **3.4 Data Sources and Collection Method**

### **3.4.1 Sources of Data**

Sufficient amount and updated data are required for a research to be reliable. As a result, the researcher's source of data was the primary data. The primary source of data was collected through interview and questionnaire.

### **3.4.2 Data Collection Technique**

The data collection techniques the researcher used is through Survey method, so data were collected from all of the population in the tax audit department. The data collected by preparing questionnaires and depth interview.

## **3.5 Data Analysis**

Data analysis is a process of cleaning, transforming, and modeling data to discover useful information for making decision. After data are collected, proper tools and techniques were used for classification and analysis of data. The main tools that applied for classification of data were tables, charts and graphs. The analysis of data involves computation in percentage, frequency and cumulative percentage. The collected data were analyzed through descriptive statistics, analyses complete data or sample of summarized numerical data using percentage and frequency.

## **CHAPTER FOUR**

### **4.0 ANALYSIS AND INTERPRETATION OF DATA**

#### **4.1 Survey Results**

In previous chapter research design and methodology was identified. On this chapter data analysis and interpretation is stated and presented in different ways. The survey was conducted with 74 tax auditors and 2 department managers (risk compliance manager and tax audit section head manager). As a result 76 questionnaires were prepared and distributed. From 76 questionnaires 72 were collected from the respondents. Accordingly, 94.74% were collected. Due to workload and negligence of the respondents 4 questionnaires are not fulfilled on the right way and not relevant to the research.

As Yesegat, (2008) stated that the response rate of 71.8% was reasonably good in consideration of the difficulty to collect data in poor developing countries, Ethiopia in particular. The response rate is 94.74%, it is rationally fine. In Addition to Questionnaire the research addresses an interview. An interview is a purposeful discussion or conversation with two or more people helps the researcher to gather valid and reliable data relevant to achieve research objectives. The information on the interview is also relevant to clarify for unclear ideas on the questionnaire and other questions not included in the questionnaire.

#### **4.2 Back ground Information of Respondents**

From the survey result 32 females and 40 males are tax auditors. It indicated that 55.56 of tax auditors are males. As a result majority of tax auditors are male employees. From respondents back ground in regarding to academic status, 35% Master's degree and 65% BA degree, Work experience, 6-10 year 80% and 11-16 year 10%, field of study, 65% Accounting and Finance and 25% Business Administration and the current position 60% senior tax auditor 30% team leader.

On this back ground information most of the staffs are BA degree holder and have good work experience.

**TABLE 1 PERSONAL INFORMATION OF RESPONDENTS**

No	Description	frequency	Percentage	Cumulative percentage
Sex	Male	40	55.56%	55.56%
	Female	32	44.44%	100%
	Total	72	100%	
Field of study	Accounting and Finance	42	58.33	58.33
	Business Administration	17	23.61	81.94
	Economics	9	12.5	94.44
	Management	4	5.56	100
	Total			
Academic Status	Degree	57	79.17	79.17
	Master's Degree	15	20.83	100
	Total	72	100	
work experience	Below 5 year	8	11.11	11.11
	6-10 years	50	69.44	80.55
	11-15 years	10	13.89	94.44
	Above 16 years	4	5.56	100
	Total	72	100	
Current Position	Tax Auditor	50	69.44	69.44
	Team leader	20	27.78	97.22
	Finance manager	1	1.39	98.61
	Risk Compliance head	1	1.39	100
	Total	72	100	

Source: Survey data

## **4.2 Data Analysis and Discussion**

### **4.2.1 Cases Related to Audit Selection**

In Ethiopia the selection of tax payers to address tax audit is a major issue. The tax payer selection is done by the risk compliance office after that the tax audit makes the audit based on the risk office sends the tax payers list. Tax auditors auditing the selected tax payers independently to achieve their objectives. From the survey result 19.44% of the respondents strongly disagree, 2.78% neutral, 55.56% agree and 22.22% strongly agree on independence of tax auditors. From this 77.78% in agreement in which tax auditors are independent for all tax payers. For the work performed tax auditors give a report for the concerned government. The survey result shows that 33.33% of respondents states that tax audit report is not fully acceptable whereas 50% of the respondents stated that tax audit reports are fully acceptable the researcher concludes that tax audit report is acceptable. On question number 4 below the table the selection of tax payer for auditing is expressed by the respondents as 8.33%, 25%, 50%, 4.17 and 12.5% applied for year of existence, annual sales volume, riskiness of business, information from stake holders and amount of profit tax respectively. From this Riskiness of the business is mainly applied to select a given tax payer.

**TABLE 2** AUDIT SELECTION

Question	Answer	frequency	Percentage	Cumulative percentage
Question-3 Tax Auditors are independence for all selected tax payers during auditing	Dis agree	14	19.44	19.44
	Neutral	2	2.78	22.22
	Agree	40	55.56	77.78
	Strongly agree	16	22.22	100
	Total	72	100	
Question-15 The tax auditor report on selected tax payer is fully acceptable by tax administrator	Strongly disagree	4	5.55	5.55
	Disagree	20	27.78	33.33
	Neutral	12	16.67	50
	Agree	36	50	100
	Total	72	100	
Question-4 Which criteria is used to select tax payer	Year of Existence	6	8.33	8.33
	Annual sales volume	18	25	33.33
	Riskiness of business	36	50	83.33
	Information from stake holders	3	4.17	100
	Amount of profit tax	9	12.5	
	Total	72	100	

Source: Survey

### **4.2.3 Cases in regarding to Tax Policies**

Tax evasion is an illegal means to avoid paying tax. It is expressed in the form of under reporting income, deliberately underpaying taxes owed, over stating the amount of deduction and keeping two sets of books. The question for the reason the tax payers evading and avoiding tax from the survey result shows that 22.22% of the respondent beliefs due to tax payers knowledge gap,22.22% of respondents said weakness of tax administration,9.72% of respondents due to tax payer carelessness,18.06 %of respondent sad due to unclear tax rules and regulation and 27.78 % of the respondents believes reason for tax evasion and avoid is tax payer interest to hide the tax.

As a result the researcher concludes that most of the tax payers are interested to hide the tax. The solution for that is creating awareness for tax payer even for the tax audit.

On question number 33 below the table-3 the main activities the tax auditor done during auditing shows in the survey result that checking and searching errors 38.89%, clarifying complex situations evidentially 26.39%, advising tax payer 22.22%, interpreting complex tax rules 8.33% and supervising tax payers 4.17%. From this the tax auditor deliberately working on finding of errors. Tax payers on knowing tax rules and regulations is a main consideration to avoid tax evasion. On Question number 4-bellow table-3 shows that cumulatively 75% of the respondents are in agreement tax payers are not strictly knowing tax rules and regulations. The researcher also asked the tax audit about the tax policy applicability and its guiding principles. How do you evaluate the Ethiopian tax system based on its simplicity, equity and fairness and convenience? From the respondents 36.11% states its simplicity ranges between 60%-74%, its equity and fairness ranges between 50%-59% and 40.28% of respondents said its convenience falls between 50% and 59%. The researcher concludes that the Ethiopian tax system based on good tax guiding principle it is below 75%. Impact of tax auditors on tax evasion is essential that minimizes the tax problems. On the Survey of this study out of 72 respondents 24 respondents agree that tax auditors impact in tax evasion is less than 49%,10 respondents agree that ranges between75%-84%,15 respondents between 60%-74%. The researcher concludes that tax auditors impact is below 50%. The tax auditors' knowledge on knowing tax rules and regulations 33.33% of the respondents said tax auditors' knowledge mostly falls between 60-74%.

**TABLE 3 TAX POLICY GUIDE LINES**

Question	Answer	frequency	percentage	Cumulative percentage
Question-28 What is the reason the tax payers evading and avoiding tax	Tax payers knowledge gap on tax	16	22.22	22.22
	Weakness of administration	16	22.22	44.44
	Tax payers carelessness	7	9.72	54.16
	Unclear tax rules and regulations	13	18.06	72.22
	Tax payer interest to hide tax	20	27.78	100
	Total	72	100	
Question-6 What main activities are done by tax audit during auditing	Checking and searching errors	28	38.89	
	Clarifying complex situations evidentially	19	26.39	
	Advising tax payer	16	22.22	
	Interpreting complex tax rules	6	8.33	
	Supervising tax payers	3	4.17	
	Total	72		

Question	Answer	frequency	Percentage	Cumulative Percentage
Question-4 Tax payers strictly knowing tax rules and regulations	Strongly dis agree	2	2.78	
	Dis agree	52	72.22	
	Neutral	8	11.11	
	Agree	10	13.89	
	Total	72	100	
Question-19 The tax policy is practically applied	Strongly disagree	4	5.56	
	Disagree	10	13.89	
	Neutral	5	6.94	
	Agree	43	59.72	
	Strongly agree	10	13.89	
	Total	72		
Question-23 How do you evaluate Ethiopian tax system on its simplicity	75%-84%	15	20.83	
	60%-74%	26	36.11	
	50%-59%	10	13.89	
	<49%	21	29.17	
	Total	72	100	
Question-24 How do you evaluate Ethiopian tax system on its equity and fairness	>85%	3	4.17	
	75%-84%	5	6.94	
	60%-74%	19	26.39	
	50%-59%	26	36.11	
	<49%	19	26.39	
	Total	72	100	
Question -25 How do you evaluate the Ethiopian tax system on its convenience	>85%	15	20.83	
	75%-84%	5	6.94	
	60%-74%	13	18.06	
	50%-59%	29	40.28	
	<49%	10	13.89	
	Total	72	100	
Question-26 Tax audit impact on reduction of tax evasion, fraud and intension	>85%	13	18.06	
	75%-84%	10	13.89	
	60%-74%	15	20.83	
	50%-59%	10	13.89	
	<49%	24	33.33	
	Total	72	100	
Question-27 the tax auditors knows the tax rules and regulations	>85%	5	6.94	
	75%-84%	19	26.4	
	60%-74%	24	33.33	
	50%-59%	10	13.89	
	<49%	14	19.44	
	Total	72	100	

Source: survey result



### 4.2.3 Cases on Audit Program

Meigs defines an audit program as “a detailed plan of the auditing work to be performed specifying the procedures to be followed in verification of each item in the financial statement and giving the estimated time required” (Clifford, 2012).

From the above definition for performing an audit a detail plan is required. Below the table cumulatively 77.77% of the respondents are in agreement that tax audit clearly identify audit program before auditing. In contrast, in identifying strength and weakness of audit program performed, 58.33% the respondents agreed that tax audit program weakness and strength is not identified and evaluated on the other hand 27.78% of respondent in agreement that weakness and strength of audit program is identify. In general tax audit program weakness is no justified and evaluated in MOREASTO. In ministry of revenue eastern Addis Ababa small tax payers branch office, the researcher asked the tax auditor is the ministry of revenues give a sufficient training for tax payers? Cumulatively 61.12% of the respondents are in agreement that the ministry of revenues cannot give a sufficient training for tax payers.

**TABLE 4** CASES ON AUDIT PROGRAM

Question	Response	Frequency	Percentage	Cumulative Percentage
Question-2 Tax audit clearly identify audit program before auditing	Dis agree	12	16.67	
	Neutral	4	5.56	
	Agree	50	69.44	
	Strongly Agree	6	8.33	
	Total	72	100	
Question-21 Identify weakness and strength of tax audit program performed	Disagree	42	58.33	
	Neutral	10	13.89	
	Agree	20	27.78	
	Total	72	100	
Question-17 Ministry of Revenues give sufficient training for tax payers	Strongly Dis agree	19	26.4	
	Dis agree	25	34.72	
	Neutral	14	19.44	
	Agree	14	19.44	
	Total	72	100	

Source: Survey Questionnaire

#### **4.2.4 Tax Audit performance and tax compliance**

Although taxpayer non-compliance is a continual and growing global problem (McKerchar and Evans 2009), Dealing with the problem of tax evasion requires at least some understanding of the factors underlying the individual taxpayer's decision whether to pay or evade taxes. For the question the tax audit is performed based on audit manual? 18.06 % of respondents disagree, 11.11% said neutral, 47.22% of respondent agree and 23.61% are strongly agree. The researcher concludes that cumulatively 70.83% of the respondents are in agreement that tax audit is performed based on audit manual. In regarding to question 6 and 7 the researcher concludes that in cumulatively 75% and 100% of respondents are in agreement with tax audit effectively knows and tax audit can assess audit reports of external audit respectively. The manager of tax auditor interferes on the audit performed in the selected tax payers? From the survey 5.56%, 45.83%, 38.89% and 9.72% of the respondents strongly dis agree, dis agree, neutral, and agree respectively. The researcher concludes that majority of the respondents responded as the manager of tax auditor can't interfere on auditor's activity. On question number-11 in auditing activities are started and completed in predetermined time frame? Half of the respondents are in agreement that audit activities are started and completed within predetermined frame work and cumulatively 62.5% of the respondents are in agreement on identifying tax payer weakness and strength. The risk compliance office selects the tax payer for addressing tax audit in the tax administrator by tax auditor on this area the researcher gets a response that cumulatively 87.5% of the respondents states that the tax audit can't address all tax payers at least once within five years.

**TABLE 5 TAX AUDIT PERFORMANCE**

Question	Response	Frequency	Percentage	Cumulative Percentage
Question-5 Tax audit is performed based on audit manual	Dis agree	13	18.06	
	Neutral	8	11.11	
	Agree	34	47.22	
	Strongly agree	17	23.61	
	Total	72	100	
Question-6 Tax audit effectively knows the Objectives of ministry of revenues	Strongly dis agree	4	5.56	
	Dis agree	8	11.11	
	Neutral	6	8.33	
	Agree	44	61.11	
	Strongly agree	10	13.89	
	Total	72	100	
Question-7 Tax audit can assess audit reports of external audit	Agree	66	91.67	
	Strongly Agree	6	8.33	
	Total		100	

Source: Survey and own Computation

**TABLE 6 TAX AUDIT ACTIVITIES**

Question	Answer	Frequency	Percentage	Cumulative Percentage
Question-9 Audit Activity is free from tribe influence	Strongly dis agree	10	13.89	
	Dis agree	5	6.94	
	Neutral	29	40.28	
	Agree	17	23.61	
	Strongly agree	11	15.28	
	Total	72		
Question-10 the manager of tax auditor interferes on the audit performed in the selected tax payers	Strongly dis agree	4	5.56	
	Dis agree	33	45.83	
	Neutral	28	38.89	
	Agree	7	9.72	
	Total	72	100	
Question-11 Audit activities are started and completed within predetermined time frame	Dis agree	6	8.33	
	Neutral	30	41.67	
	Agree	36	50	
	Total	72	100	
Question-16 Tax audit identify tax payer weakness and strength	Strongly dis agree	4	5.56	
	Dis agree	5	6.94	
	Neutral	18	25	
	Agree	45	62.5	
	Total	72	100	
Question-18 Tax auditor performance is evaluated	Dis agree	19	26.39	
	Neutral	14	19.44	
	Agree	39	54.17	
	Total	72	100	
Question-22 Tax audit address all tax payers once with in five year	Strongly disagree	16	22.22	
	Dis agree	43	59.72	
	Neutral	13	18.06	
	Total	72	100	

## **4.5 Analysis and interpretation on audit approach, Evidence, Type and over all information**

On the literature review the researcher explains theoretically the audit approach, audit evidence and audit type. Audit approaches are the methods or techniques that auditors use in their audit assignments. The major audit approaches Ministry of revenues followed are substantive, balance sheet, system based and risk based. Audit types addressed by tax audit are full audit, issue audit, desk audit, investigation etc. From the survey result out of 72 respondents 28 of them gives a response as the eastern small tax payers branch mostly followed documentary evidence. The researcher concludes that the auditor uses all evidence but mainly focused on documentary evidence. In regarding to audit approach on the researcher questionnaire 6.94% of respondents agreed substantive audit approach where as 93.06% in agreement with risk-based approach. In risk approach, audit resources are directed towards those areas of the financial statements that may contain misstatements (either by error or omission) as a consequence of the risks faced by the business as a result The Eastern Addis Ababa Small Tax Payers Branch Office mainly followed risk-based approach i.e. 93.06% of respondents are in agreement. The tax audit type interpretation from the survey shows in the following as 13.89% and 86.11% of respondents agreed that the tax audit is performed desk audit and comprehensive audit respectively. The researcher concludes by explaining the tax audit type

- **A full audit-** is all-encompassing in scope and entails an in-depth examination of all information relevant to the calculation of a taxpayer's tax liability for all tax type for a given period. Given the broad scope, full audit (comprehensive audit) is typically costly to undertake in terms of time and resources, and thus reduces the rate coverage of taxpayers that could otherwise be audited
- **Desk issue audit** -This can be conducted in relation to specific issue(s) of a taxpayer or enterprise when the auditor is confident that all the necessary information can be ascertained by conducting an examination in the office. All the required or relevant information or data may be accessed from internal sources or official reference without the need to contact the taxpayer
- **Field issue audit** -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 to a tax

type or period. Field issue audit is commonly used in examining whether a taxpayer has met his/her obligations in respect of paid VAT/TOT and Excise tax, Withholding Tax or Income Tax normally for a specified tax period.

**TABLE 7 AUDIT EVIDENCE AND APPROACH**

Question	Answer	frequency	percentage	Cumulative percentage
Question-29 What type of audit evidence is mostly followed during auditing	Physical evidence	11	15.27	
	Documentary	28	38.89	
	Analytical	13	18.06	
	Confirmation	10	13.89	
	Recalculation	10	13.89	
	Total	72	100	
Question-30 which Audit Approach is most followed by tax auditor	Substantive	5	6.94	
	Risk based	67	93.06	
	Total	72	100	

Source : survey and own computation

Time period of the tax audit on the selected tax payer in the respondents result Every two years 8.33%, Every five years 30.56% and no time limit is 61.11%. From this the tax audit time period to address the tax payer is not limited. It shows that it is subjective judgment when the tax audit audits a company. The equality to be audited is not faire for all tax payers.

**TABLE 8 TAX AUDIT TYPE AND TAX COMPLIANCE**

Question	Answer	frequency	Percentage	Cumulative percentage
Question-34 Who assign tax auditors to the tax payer	Audit department head	29	40.28	
	Audit team leader	43	59.72	
	Total	72	100	
Question-32 what type of tax audit is most likely done	Desk audit	10	13.89	
	Comprehensive	62	86.11	
	Total	72	100	
Question-36 When the tax audit is performed	Every Two year	6	8.33	
	Every five year	22	30.56	
	No time limit	44	61.11	
	Total	72	100	
Question-37 What techniques are used before selecting tax payer	Preaudit research	23	31.94	
	Informally gathering information from society	10	13.89	
	Evaluation of government revenue to generate income by tax audit	26	36.11	
	Request of tax payer	13	18.06	
	Total	72	100	
Question-35 Which business sector is mostly evading tax	Manufacturing	13	18.06	
	Construction	38	52.77	
	Import export	9	12.5	
	Agricultural business	3	4.17	
	Mixed sector	9	12.5	
	Total	72	100	

Source: Survey Result and own computation

Question number-37 What techniques are done before selecting tax payer? Tax audits are carried out by public authorities and provisions act on the assessment procedure. It is the tax administration's aim to carry out the taxation that falls within its authorization in professional, reliable and impartial manner. As a result the procedures consist of an investigation of whether correct and sufficient information has been provided for the purpose of taxation. Before auditing some techniques are used to be reliable audit. The respondents are agreed on that the techniques used for preaudit research 31.94%, informally gathering information from society 13.89%, evaluation of government revenue to generate income by tax audit 36.11% and 18.06% of respondents said in request of tax payer. Questions on Which business sector is mostly evading tax the survey outcome shows that 18.06%,52.77%,12.5%,4.17% and 12.5% of respondents believes in manufacturing, construction, import export, agricultural business and mixed sector respectively. The researcher concludes that the construction sectors are high non-compliance behavior on tax evasion. So that MOREASTO makes higher attention on creating awareness in the construction sector.

From the tax compliance behavior the researcher makes justification based on the following situation.

### **Tax Compliance**

Mobilizing revenue is a way for governments to create fiscal space, provide essential public services, and reduce foreign aid and single resource dependence. Rahayu (2010) explained that tax compliance is a condition in which the taxpayer au meets all its tax obligations and performs the taxation. The underlying problem of low compliance can be caused by many things but the most important thing here is that there is no data on the taxpayer compliance (Marziana, 2010). The low taxpayer compliance rate will generate a greater difference between the amount of paid tax and the amount of payable tax; this difference will cause a loss of the state revenue

For the open ended questions, the respondents write some clarification.

Question-1 Is there any gap between tax payer and tax auditor?

All of the respondents said that there is gap between the tax auditor and tax payer.



The gap is solved through consultation and evidentially analyzing documents based on the rules and regulations. If the problem is not solved between them risk compliance committee solving the problems. Question in regarding to the purpose of tax audit the respondents' states that ensuring compliance, generating income, reducing tax avoidance and evasion.

Question 4) how the tax auditor is selected the tax payer?

In the literature review Audit selection is an issue for achieving the objectives of the government whether the right tax auditor or the right tax payer. The audit selection is performed by the risk compliance officer, having 22 criteria to select the tax payer to be audited. So the MOREASTO follows screening or case review

### **Random Selection**

Random selection is precise scientific procedure where by each tax payer has equal chance of selection for inclusion in a sample to be audited. It has no bias in audit selection, and useful to fight corruption. This method is perceived as faire by tax payer. However, it clearly not focused on highest risks, may have high opportunity cost if used as sole selection method (vellutini, 2010). It has problems on away that honest and dishonest tax payers are treated equally and highest risk areas and lowest risk areas also treated in the same way.

### **Screening or case review by auditors**

It is the traditional method by which audit cases have been selected and dates from the time when there was little or no IT support, the data available was in any case limited, and the compliance risk.

According to OECD (2004a), the challenges inherent in relying on case workers' selection are:

It relies on limited data set with no systematic cross reference to other data available within the administrations system; case workers regardless of their experience can miss aspects of non-compliance with which they are not familiar. Modern standards of propriety indicated that there should be a gap between those selecting cases and those functioning cases.

## **Data Mining and Statistical Analysis**

Statistical Analysis and data mining address the broad area of data analysis including statistical approaches, machine learning, data mining, and applications. It is commonly applied for analyzing massive and complex data sets. It also involves using prior tax audit results, which are then analyzed in conjunction with tax payer data.

# CHAPTER FIVE

## 5.0 CONCLUSIONS AND RECOMMENDATIONS

In the previous chapter the researcher discusses analysis and interpretation of data. On this chapter the researcher summarizes the whole main topics of each paragraph presented previous chapters and main findings getting from the study. In addition to this the researcher high lights a recommendation for future direction that are relevant based on the findings. The chapter organized in to three sections, the first section includes findings, the 2<sup>nd</sup> part summarizes conclusions, and the last sections summarizes the recommendations.

### 5.1 Main Findings

The findings getting from the study are listed as follow as

- The strength and weakness of the audit program is not evaluated. If the audit program is evaluated, it promotes the division of works over the audit staff in an organized manner and results in proper audit routine and saves time.
- The major reason for tax evasion and fraud is the tax payer's interest to hide tax. So the tax compliance behavior of the tax payer is highly interested to hide the tax. Awareness of the tax payer is very low and this results in noncompliance of tax law and regulations
- From the role of MOREASTO point of view tax administer doesn't not give sufficient training for the tax payer and tax audit these results in mistakes in performing their activities
- The tax audit department have not sufficient human resources to achieve their objectives.
- Practically the tax audit period for auditing a tax payer is no clearly identified and subjective rather than specified time period.
- Tax policy problems on its convenience, simplicity, Equity and fairness.

## **5.2 Conclusions**

In over all countries the government imposes a tax on the citizens in order to generate income and financing different expenditures. Taxation is as a major source of revenue in the ministry of revenues in Ethiopia, to safeguard this revenue government of ministry of revenues assign a tax audit. Even if tax audit is assigned tax evasion and fraud is still now continued and in what way minimize is a big issue so in this modern world of large business and industry, auditing has become an inevitable function. In which its purpose is to ensure the accuracy of books of accounts maintained, which forms the basis of computation of income of the assess. Tax audit is an examination of whether a tax payer has correctly assessed and reported their tax liability and fulfilled other obligations. A well-structured tax audit program is vital to achieve revenue objectives 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 of tax payer at all levels. In addition the study also overviews tax audit evidence, the audit types, audit approaches and the good tax guiding principles to minimize tax evasion and fraud. The study mainly focused on practical assessment of the tax audit in MOREASTO. To sum up the research examines tax audit practices of MOREASTO, the research has contributions for the small tax payers, tax auditors, government tax policy makers and the researchers for further study in related to this area. The researcher uses primary sources of data and Studied every unit in a population as a census technique.

## **5.3 Recommendations**

This section provides some recommendations that are suggested as a solution to mitigate the operational problems of tax audit practice and tax compliance issues so that to improve voluntary compliance and to meet the revenue needs of the MOREASTO. Therefore, based on the findings of the research the following recommendations are provided:

- ✓ The tax audit decides the time to address all tax payers. From interview some company within 8 year or above cannot be audited on the other hand with in 5 year some companies are audited.
- ✓ For the interest of tax evasion and fraud, the tax administer creates awareness in the tax payer even adapting a society as a culture paying tax is true indicator of once citizen. Conducting effective tax payer's awareness, business owners gain more knowledge of tax and it is advantages for them to comply voluntarily.
- ✓ Make a revision on the tax policy and base on a good tax policy guide lines and mediating the tax structure in considering the tax payers as a whole.
- ✓ The tax audit department prepared the audit program and the program strengthness and weakness is identified. The researcher recommended from the advantages of the program the tax auditor evaluate is program because results in enabling the auditor to keep his client informed about the stages up to which the audit work has been completed and also it results in proper audit routine and saves time
- ✓ The ministry of revenues recruiting qualified tax auditors to achieve their objectives. If there is qualified and sufficient human resource that addresses all tax payers, tax compliance will decrease and the required revenue is generated in the MOREASTO. Tax is a major source of revenue assigning a qualified tax auditor by making cost benefit analysis increasing employees cost and income generated by increasing employees. In Ethiopia a lot of employees are out of work so be consider it.

## REFERENCE

- Abnet., L. (2016). Assessment of Tax audit practices and its Effect in Increasing Government Revenue in Ethiopia: A case study in Ethiopian Revenue & Customs Authority Large Tax Payers Office, Master's thesis, Saint Mary's University, Addis Ababa.
- Alabede OJ, Ariffin ZZ, Kamil MI (2011). individual taxpayers' attitudes and compliance behaviour in Nigeria: The moderating role of financial condition and risk preference. J. Account. Tax at 3(5):91-104
- Alm, James and Jorge Luis Martinez-Vazquez (2001), Societal institutions and tax evasion in developing and transition countries. A paper prepared for a public finance in developing and transitional countries conference, Georgia State University
- Allingham, M.G., and Sandmo, A. (1972). Income tax evasion: A theoretical analysis. Journal of Public Economics, 1(3-4), 323-38
- Barreca, D and S. Ramachandran 2004, „Improving tax administration with data mining, Executive Report, TCWP-0504, Elite Analytics, LLC, <ftp://hqftp1.spss.com/pub/web/wp/TCWP1r.pdf>, accessed on February 2016.
- Bibisso, N. (2014). Assessment of tax audit practice: the case of Hawassa city administration. IFSMRC international publications Ethiopia, India.
- Bird, & Richard, M. (2008). Tax Challenges Facing Developing Countries. Working Paper Series, IIB Paper No. 12, Institute for International Business, Rotman School of Management, University of Toronto
- Biber, E 2010, „Revenue Administration: Taxpayer Audit Development of Effective Plans, Technical Notes and Manuals, IMF, Fiscal Affairs Department, available at, <http://www.imf.org/external/pubs/ft/tnm/2010/tnm1003.pdf>, accessed on March 2016

- Getaneh, M. (2011). Tax audit practice in Ethiopia: The Case of the federal Government. Ethiopia- Addis Ababa University: School of Graduate Studies
- Carmichael D, Willingham J, Schaller C (1996). Auditing Concepts and Methods. A Guide to Current Theory and Practice. 6th edition. McGraw-Hill Companies: 4.
- Clifford. G. (2012). Auditing and Assurance (eastern economy edition). New Delhi. DHI learning private limited.
- Colon DW, Swagerman DM (2015). Enhanced relationship preparedness in a Dutch multinational context: A tax control framework. J. Account. Tax. 7(11): 13-18
- Damme, L, T. Misrahi and S. Orel 2008, "Taxation Policy in Developing Countries: available at <<http://visar.csustan.edu/aaba/LaurenDamme.pdf>>, accessed on January 14
- Damme, L. T. (2008). "Taxation Policy in Developing Countries: what is the IMF's involvement? DV406 Consultancy project, Retrieved December 16, 2015, from <<http://visar.csustan.edu/aaba/LaurenDamme.pdf>>.
- Diana O. (2016), Measuring Tax Compliance Attitudes: What Surveys Can Tell Us about Tax Compliance Behaviour, in John Hasseldine (ed.) Advances in Taxation (Advances in Taxation, Volume 23) Emerald Group Publishing Limited, pp.173 - 190
- Edmiston, K D and R M. Bird (2004). Taxing Consumption in Jamaica: The GST and SCT, IPT Paper No.0414, International Tax Program, Rotman School of Management, University of Toronto
- ERCA,2014 Domestic task audit manual
- George Drogalas, Sorros Ioannis, Karagiorgou Dimitra, and Diavastis Ioannis. (2015). Tax audit effectiveness in Greek firms: Tax auditors' perceptions. Journal of Accounting & Taxation, Vol. 7(7), pp. 123-130.

- Melat, A. (2016). Factors Affecting tax audit effectiveness evidence from large tax payers of ERCA (based on auditor's perception). Master's thesis, Addis Ababa University, Addis Ababa.
- OECD. (2006). Strengthening Tax Audit Capabilities: General Principles and Approaches. Information Note. USA: CTPA.
- OECD 2004a, „Compliance Risk Management: Audit Case Selection Method, Information Notes, October 2004, Tax Administration Compliance Sub-group, available at, <<http://www.oecd.org/dataoecd/44/36/33818568.pdf>>, accessed on March 2016
- OECD 2004b, „Compliance Risk Management: Managing and Improving Tax Compliance, Guidance Note, October 2004, Tax Administration Compliance Sub-group, available at <<http://www.oecd.org/dataoecd/21/55/37212610.pdf>>, accessed on March 2016.
- OECD 2006a, „Strengthening Tax Audit Capabilities: General Principles and Approaches, Information note, October 2006, Tax Administration Compliance Subgroup, available at <<http://www.oecd.org/dataoecd/46/18/37589900.pdf>>, accessed on April 2016
- OECD 2006b, „Strengthening Tax Audit Capabilities: Auditor Workforce Management Survey Findings and Observations, Information note, September 2006, Forum on Tax Administration's Compliance Sub-group, Center for Tax Policy and Administration
- Karagiorgis et al. (2006)
- Marziana BHM (2010). The relationship between perception and level of compliance under self-assessment system - A study in the East Coast Region. J. Glob. Bus. Econ. pp. 241-257
- McKerchar, M. (2009). The impact of complexity up on tax compliance: A study of Australian personal taxpayers, research study No. 39, Australian tax research foundation: Sydney; pp.12-50.



- Rahayu SK (2010): Indonesian Taxation - Concepts and Formal. Yogyakarta: Graha Science. pp. 56-71
- Mundari, A. (2005). Influence success factors against tax payer acceptance of income tax (KPP Case Study Batu, Malang). Executive J. 2(2):120-124
- Solomon, S. (2019). Perception of tax audit practice: Evidence from Ethiopian Revenues and Customs Authority Large Tax Payers Office(LTO). Master's thesis, Addis Ababa University, Addis Ababa.
- Thomson, R. (2008). "Strengthening Risk Management and Audit Strategies to Improve Compliance", Paper presented at Caribbean Organization of Tax Administration (COTA) General Assembly, July 2008, CARTAC, Belize. Retrieved from available at, <[www.cartac.org/COTA](http://www.cartac.org/COTA). Accessed on July 2018.
- Yesegat, W A. 2008, Value added Tax Administration in Ethiopia: A Reflection of Problems", e Journal of Tax Research (2008), Vol.6, No. 2, pp. 145-168
- Zulaikha, Nugroho RA (2012). Willingness to pay taxes, pay taxes awareness, knowledge and understanding of taxpayers, a good perception of the effectiveness of the taxation system, service quality. Dipenegoro J. Account. 1:2.

# APPENDIX

The study is being conducted as part of the undersigned researcher's study for the degree of Master of Science in Accounting and Finance in St. Mary's university.

The information you provide in response to the questionnaire will be used as part of the data needed for the study- **THE ASSESSMENT OF TAX AUDIT PRACTICE IN MINISTRY OF REVEUES EASTERN ADDIS ABABA SMALL TAX PAYERS BRANCH OFFICE**. All information will be kept confidential and the result of the study will be used only for academic purpose. Believing of that your reliable and honest response will be great contribution to the success of the study.

You can Contact me with:

**Phone No 09 29 04 03 88/09 38 06 08 11**

**Email ssaymay3@gmail.com**

## Instructions

- There is no need to write your name
- You are cordially requested to choose the answer from the list or write your answer briefly on the space provided
- Please try to return the questioner form with in the given time
- Please put tick mark (x) on the box for your response.

**THANK YOU FOR YOUR COOPERATION!!!**

### ➤ Personal Information of Respondents

#### 1) Academic Status

Degree PHD   
Masters  Others \_\_\_\_\_

#### 2) Work Experience

Below 5 years  6-10 years   
11-15 years  above 16 years

#### 3) Sex

Male  Female

4) Field of Study

Accounting and Finance

Economics

Business Administration

Management

Others Specify \_\_\_\_\_

5) Current Position

Tax Auditor

Team Leader

Finance Manager

Human resource Manager

Others Specify \_\_\_\_\_

Use 5-scale ratings whereby; **1**=strongly Disagree, **2**=Disagree, **3**=Neutral, **4**=Agree, **5**=Strongly Agree

**To notify your choice, please use (x)**

No	Description	1	2	3	4	5
1	Tax audit has sufficient human resources to address tax audit activities on all tax payers					
2	Tax Audit clearly identify audit program before Auditing					
3	Tax Auditors are Independence for all Selected tax Payers during auditing activities					
4	Tax Payers are strictly knowing tax rules and regulations					
5	Tax audit is performed based on audit manual					
6	Tax audit effectively knows the Objectives of ministry of revenues					
7	Tax audit can assess audit reports of external audit					
8	The tax payers cooperate to give essential information for the tax audit					
9	Audit activity is free from tribe influence					
10	The manager of tax auditor interferes on the audit performed on the selected tax payers					
11	Audit Activities are started and completed within a predetermined time frame					
12	The ministry of revenue gives sufficient resources for tax audit					
13	Tax auditors has significant role in reduction of tax evasion					
14	Tax payers give misinformation for tax auditor					
15	The tax auditor report on selected tax payer is fully acceptable by the tax administrator					
16	Tax audit identify tax payer weakness and strength					
17	Ministry of revenues give sufficient training for tax payers					
18	Tax auditors Performance is evaluated					
19	The tax policy is practically applied					
20	The ministry of revenues done pre audit research					
21	Identify weakness and strength of tax audit programs performed					
22	Tax audit addresses all tax payers once with in five year					

Please put (×) for the answer on the box

23) How do you evaluate Ethiopian tax system on its Simplicity

>85%

75%-84%

60%-74%

50%-59%

<49%

24) How do you evaluate Ethiopian tax system on its Equity and fairness?

>85%

75%-84%

60%-74%

50%-59%

<49%

25) How do you evaluate Ethiopian tax system on its Convenience

>85%

75%-84%

60%-74%

50%-59%

<49%

26) Tax audit impact on reduction of tax evasion, fraud and intension

>85%

75%-84%

60%-74%

50%-59%

<49%

27) How much is the tax auditor knows the tax rules

>85%

75%-84%

60%-74%

50%-59%

<49%

Please Put (×) on the box Provided. (Multiple answer is possible)

28) What is the reason the tax payers evading and voiding tax?

Tax payers knowledge gap on tax

Weakness of tax Administration

Tax payer careless ness

Un clear tax rules and regulations

Tax payer interest to hide tax

29) What type of Audit evidence is followed during Auditing?

Physical Evidence

Documentary

Analytical

Confirmation

Recalculation

30) Which audit approach is most likely followed by tax auditor

- Substantive
- Balance sheet
- System based
- Risk based

31) How do you select tax payer for tax audit

- Year of existence
- Annual sales amount
- Riskiness of business
- Information from stakeholders(citizens)
- Amount of profit tax

32) What type of tax audit is most likely done

- Desk audit
- Field audit
- Issue oriented
- Comprehensive
- Record keeping

33) What main activities are done by tax audit during auditing

- Checking and searching errors
- Clarifying complex situation evidentially
- Advising tax payer
- Interpreting complex tax rules
- Supervising tax payers

34) Who assign tax auditors to audit the tax payer

- Audit department head

- Human resource head
- Based on interest of auditor
- General manager     Audit team Leader

35) Which business sector is mostly evading tax?

- Manufacturing
- Construction
- Import export
- Agricultural business
- Mixed

36) When the tax audit is performed on the selected tax payer?

- Every year
- Every two year
- Every three year
- every five year
- No time limit



37) What techniques are used before selecting a tax payer in order to audit

- Pre audit research
- informally gathering information from society
- evaluation of government revenue to generate income by tax audit
- Request of tax payer

# Open ended Questions

1) Is there any gap existed between tax auditor and tax payer? Yes  no

If yes list out the gaps

---

---

---

how do you solve the problems?

---

who solves the problem not solved by tax a payer and tax auditor?\_\_\_\_\_

---

2) Are the tax payers cooperating to give essential information for the tax audit? Yes   
no

3) What is the purpose of tax audit?

---

---

---

---

4) How the tax payer is selected to be audited?

---

---

5) Is there effective sanction on non-compliance of tax rules and regulations? yes   
no  neutral

6) What measurements are taken rather than collecting revenue when there is tax evasion by tax payer?

---

---

---

---

If you have any opinion or suggestion, please write on the space provided\_\_\_\_\_

---

---