



SCHOOL OF POSTGRADUATE STUDIES

Accounting and Finance Program

Assessment of tax audit practices and its challenge

**(A case study in Ministry of Revenues Eastern Addis Ababa small
tax payer's branch office)**

By:Maruf Kedir

Addis Ababa University

Addis Ababa Ethiopia

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SCHOOL OF POSTGRADUATE STUDIES
Accounting and Finance Program

*A Thesis is submitted to the school of postgraduate studies presented
in partial fulfillment of the requirements for the Degree of Masters of
in Accounting and Finance.*

By: Maruf Kedir

ID..... GSE/9137/14

Advisor: Temesgen Worku (PhD)

Addis Ababa University

Addis Ababa Ethiopia

June, 2024

Statement of certification

This is to certify that Maruf Kedir has completed his thesis under my guidance on the topic “Assessment of Tax Audit Practice and Challenge in the Ministry of Revenue”: This thesis, in my opinion, can be submitted to fulfill part of the requirements required to obtain an MSc in Accounting and Finance.

Advisor: Temesgen Worku (PHD)

Signature  Date 09/07/24

Statement of declaration

With the helpful direction and assistance of the research advisor, I completed my independent thesis on "Assessment of Tax Audit practice and its challenge: The case of Ministry of revenue" in partial fulfillment of the requirements for the MSc in Accounting and Finance.

This thesis is entirely original work of mine, has never been submitted for credit toward a degree or diploma at this or any other institution, and has all the necessary citations attached.

Maruf Kedir

Signature

A handwritten signature in black ink, consisting of stylized, overlapping loops and a long vertical stroke extending downwards. The signature is written over a horizontal line.

May, 2024

Addis Ababa Ethiopia

Certificate

This is to certify that the dissertation entitled “Assessment of Tax Audit Practice and Its Challenges in the MOR: The Case of MOR Eastern Addis Ababa Small Taxpayers Branch office. The paper” has been submitted to Addis Ababa University for the award of the Master's degree' for Accounting and finance carried out by Maruf Kedir, under our guidance and supervision. Therefore, we hereby declare that no part of this work has been submitted to any other university or institution for the award of a degree or diploma.

Name of Advisor Megaw Signature  Date 09/07/24

Name of Internal Examiner Sewale Signature  Date 09/07/24

Name of External Examiner Dabito A. Signature  Date 09/07/24

Name of head of Department _____ Signature _____ Date _____

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List of acronyms

ERCA	Ethiopian Customs and Revenue Authority
MOR	Ministry of Revenue
GDP	Gross domestic product
IMF	International monetary fund
MOF	Ministry of Finance
OECD	Organization for economic and cooperation development.
SIGTAS	Standard integrated government tax administration system.

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Abstract

The purpose of the study is to determine the tax audit practice and its challenges in ministry of revenue: The Case of Eastern Addis Ababa Small Taxpayers' Branch Office. The study used descriptive research design. To achieve the objective, the mixed research approach was employed and data was collected from 76 tax auditors and tax officials. Questionnaire and in-depth interview was used to collect the data. The researcher used descriptive statistical analysis in order to analyze the collected data. According to the study result comprehensive audit conducted extensively, the audit selection method is based on tax evasion and avoidance, risk associated with tax payers, tax payer's history associated with penalty and refunds. Tax auditors lacked proficiency and competency. Moreover, the study also found that, tax evasion and avoidance, low tax auditor capacity, tax auditors' ethical problem were identified as major Challenges of tax audit in Eastern Addis Ababa small taxpayers branch office. Lastly it is suggested that the revenue office should modernize the tax audit practice by implementing all types of tax audit techniques and methodologies, audit files within reasonable time, support audit case selection by system, build proficiency and competency and ethics of tax auditors by establishing organized center and invest on announcing and educating taxpayers to minimize tax evasion and avoidance. Finally, a due attention should be given to tax audit practices and its challenges by the tax office in order to adequately bring taxpayers compliance and collect the amount of revenue from small taxpayers consistently in the branch office.

Key word- Assessment of tax audit practice and its challenges

CHAPTER ONE

1. INTRODUCTION

1.1 Background of study

In a tax audit, it is determined whether the taxpayer has accurately calculated, reported, and complied with their tax obligations, among other things. Compared to other sorts of exams, such ordinary desk audits, compliance inspections, or document cross-referencing activities, tax audits are typically more thorough and rigorous. It should be noted that different nations may have unique standards and procedures when it comes to conducting tax audits (OECD, 2006).

A tax audit is a systematic examination of the pertinent commercial system of a business to confirm if the taxpayer's statement appropriately represents their tax liability and conforms to applicable subsidiary laws and tax laws. As mandated by tax regulations, the auditing process involves looking over the taxpayer's financial statements, books of accounts, and vouchers to make sure they have accurately accounted for income and expenses when calculating the taxes indicated in their declarations. Other methods that may be used in the audit include looking around the property, closely studying cash receipts in businesses, applying mark-up strategies, and examining important ratios (ERCA, 2014).

The main goal of tax audits is to improve tax compliance through timely and accurate tax reporting and payments. The possibility of an audit is intended to serve as a deterrent and encourage taxpayers to file as accurate a tax return as possible. Additionally, through this process, individuals are better able to understand relevant tax regulations (ERCA, 2014).

Any tax in a tax system is vulnerable to evasion and fraud, which is a concern in many countries. Tax fraud is an international reduction of tax liability resulting from real transactions. As Baurer

(2005) stated, this is a deliberate misrepresentation or concealment of the actual situation to the tax authorities in order to reduce their tax liability.

Tax audits help increase tax revenue in two main ways: first, by directly assessing additional taxes owed and second, by improving taxpayer compliance with existing laws and regulations. The tax audit process consists of three key elements: 1) selecting taxpayers for audit during the planning phase, 2) conducting the actual audits, and 3) ongoing monitoring of audit quality. The tax administration has the ability to adjust the scope of audits as necessary based on the findings and potential of each audit case to deliver results (Jacobs et al., 2013).

The central objective of taxation is to raise revenue to finance the administrative structures of the government as well as to finance the performance of basic infrastructure. In addition, taxation aims to maintain and expand adequate social services and reduce unnecessary consumption of luxury goods, maintaining economic stability Baurer, (2005). To this end, the Ethiopian government has implemented many tax reforms (e.g. introducing self-assessment, merging tax authorities and customs authorities into one tax authority, etc.) times through different government regimes.

A tax audit is conducted to thoroughly assess a taxpayer's tax liability by examining key points. These issues typically include any evidence of significant unreported income, such as a noticeably low net/gross business income ratio, shown on the taxpayer's tax return. In addition, the audit aims to identify potentially overused deductions that could arise from a thorough review of the taxpayer's tax return and related information. In addition to income tax returns and other reports, taxpayers are expected to have supporting documents. During audits, national regulations often require compliance with specific accounting and accounting standards. The audit process may also include physical investigations, such as inspection and examination of inventory and premises (OECD, 2006).

An effective and efficient tax administration system is essential to the well-being of any country. The appropriate amount of tax must be collected in a timely manner and the enforcement powers

of the tax administration must be exercised prudently and impartially. The tax administration must create a level playing field for businesses by ensuring that all taxpayers comply with their tax reporting and tax obligations. This requires significant efforts to tackle the shadow economy and thus increase the tax base. If it is not possible to integrate business activities from the shadow economy into the tax system, compliant taxpayers will suffer a competitive disadvantage and ultimately lead to an erosion of the tax base. The tax administration needs to balance its education and support role with its enforcement role. The overall goal is to encourage voluntary compliance with tax laws (Baurer, 2005).

Therefore, this study will evaluate the tax audit practice and its challenges in MOR East Addis Ababa Small Taxpayers Branch office. The study adopts a mixed methods approach to achieve the research objective and answer research questions. In particular, the techniques used in the study include censuses with tax auditors and semi-structured interviews with tax officials.

1.2 Statement of the problems

In carrying out their tasks, tax administrations can also cause problems for the economy if they impose burdensome reporting and record-keeping requirements; conduct excessive inspections and audits; failed to deal with corrupt tax administration employees; and fails to ensure transparency in tax administration operations. Such an environment harms individual companies and the economy as a whole. Many entrepreneurs therefore react with measures that have a negative impact on the tax base. This typically includes under-reporting of profits and sales; under-reporting of employee wages; and by creating “phantom” employees. A significant number of companies also fail to register or file tax returns. This only increases the burden on those taxpayers attempting to comply with tax laws and discourages them from complying with tax laws in the future (Baurer, 2005).

Tax audit is an activity or series of activities performed by a tax auditor to determine the correct tax liabilities of taxpayers for a particular accounting or tax period by examining taxpayers, organizational procedures and financial records to ensure compliance with the to assess tax laws

and verify the truthful, fair, reliable and correct tax returns and financial statements (MOR, 2019).

Written job descriptions and regular written employee evaluations based on job knowledge, skills, attributes and overall job performance are minimal. There is no formal performance support system. Employee salaries are not enough to cover normal living costs. Employees may receive additional funding based solely on taxes assessed and/or collected and not based on the validity of the assessment/collection or qualitative performance measures. There is a significant “underground” or “grey” economy with a high percentage of unregistered and/or non-taxable taxpayers, as well as taxpayers who under-declare their income, sales or profits. There are insufficient controls to prevent external or internal corruption. Training is considered an overhead activity that does not warrant much attention or resources. There are few or no training specialists on staff. The focus of employee training is on conveying the content of tax law and not on the application of the law. Little or no attention is paid to the skills, techniques, procedures, customer relationships, or training of managers (Baurer, 2005).

According to a study by (Bayu, 2015), Ethiopia, like any other developing country, is struggling to increase revenues to the level required to promote economic growth. Therefore, countries recorded a constant excess of expenditure over income over a sufficiently long period of time. According to the study, the main reasons for this are a lack of clear understanding of the tax system by taxpayers, non-compliance of tax obligations by taxpayers, hostilities between taxpayers and tax officials, as well as a negative attitude of taxpayers towards the tax system, that is, their taxable income in sufficient amounts to understand. For this reason, the actual tax amount could not be collected properly.

(Netsanet, 2014) studied, an assessment of tax audit practices at the Hawassa Revenue Authority was examined. The result of the study revealed that the Hawassa Municipality Financial Authority extensively uses comprehensive types of audits, therefore the financial authority's audit coverage was too low, cases were selected based on the risk involved, but did not meet the

standard risk identification criteria used according to BPR. There are various factors that influence exam quality. These are inadequate resources, less experienced audit staff, fewer auditors, and no audit manual. In general, the tax authority did not conduct the tax audit according to standards. (Gemed, 2020) examined risk-based tax audits in western Addis Ababa. The result of the study found that there was a significant problem in supporting the audit work through information technology and the tax audit evidence was not obtained from third party.

According to a study by (Mihret, 2011), the tax audit program remains undeveloped and few tax audit activities aimed at applying specific risks at the federal level are carried out. The study also shows low audit coverage and lack of compliance risks based on audit case selection strategy. On the other hand, the research conducted by (Mihret, 2011) and (Samuel, 2020) revealed that, there was a lack of audit resources, especially tax auditors, and a lack of competent and experienced tax auditors as well as incompetent auditors to combat tax evasion and avoidance.

(Desalegn, 2020) studied, the impact of tax audits on revenue collection performance in Ethiopia was examined using evidence from the ERCA Large Taxpayers Branch. The result of the study shows that: Tax compliance, tax system and tax automation have a positive and significant impact on tax collection. Furthermore, audit case selection and auditor capacity have a positive and significant impact on revenue collection performance. In addition, the variable tax audit resource, tax evasion and pre-audit amount have a negative impact on revenue collection. On the other hand, the post-audit amount has positive and insignificant impact on revenue collection performance.

By improving the perception of tax audit practice, the tax administration should implement a successful audit program, the available resources, and a method of selecting audit cases and the availability of a suitable and free working environment for tax auditors capable of investigating and preventing losses of tax revenue, to improve voluntary compliance and tax potential. Given its importance, this area will make an invaluable contribution to identifying weaknesses and

recommending possible solutions to the tax authority to achieve its objectives and improve its tax administration.

Therefore, this study will expand this body of knowledge by assessing tax audit practice and its challenge in bridging this gap through the development of the following research question:

1.3 Research question

1. What is the role of tax audit practice, in MOR eastern Addis Ababa small tax payer's branch office?
2. What types audit techniques frequently used, what types of tax audit are frequently performed and how select file for audit?
3. How the MOR eastern Addis Ababa small tax payer's branch offices auditors are competent and how you evaluate adequacy of audit resource in MOR eastern Addis Ababa small tax payer's branch office?
4. What is the effectiveness of tax audit in MOR eastern Addis Ababa small tax payer's branch office?
5. What are the current challenges of tax audit practice in the branch office?

1.4 Research objectives

1.4.1 General objectives

The overall objective of this study is to evaluate the tax audit practice and its challenge in the Ministry of Revenue East Addis Ababa Small Taxpayers Branch office.

1.4.2 Specific objectives

- To assess the role of tax audit practice in MOR eastern Addis Ababa small tax payer's branch office.

- To identify types of audit techniques used during audit, types of tax audit frequently used and, to assess tax audit case selection techniques in MOR eastern Addis Ababa small tax payer's branch office.
- To examine the tax auditor's proficiency, and adequacy of resources in MOR eastern Addis Ababa small tax payer's branch office.
- To assess the effectiveness of tax audit in Ministry of Revenue Eastern Addis Ababa small tax payers branch office.
- To identify the current major challenge of tax audit in Ministry of Revenue Eastern Addis Ababa small tax payers branch office.

1.5 Significance of the study

The study improved taxpayer compliance with recordkeeping, filing and payment obligations, as well as tax consequential reporting movements. In addition, it can serve as a reference source and provide a few highlights to others who want to learn more about the topic and are interested in conducting further and detailed studies on tax audit practice and its challenges as a research title. In addition, the study will be helpful to the researcher as a partial fulfillment and further, the study will help the tax office to identify the tax audit practice and existing challenges and highlight the strategic intervention areas that could improve the audit practice and highlight the areas in need of correction to improve the tax audit management.

1.6 Scope of the study

In terms of content, the focus of the study is on tax audit practice and its challenges in the MOR. However, geographically, the Ministry of Finance has 14 branches, to date; this title has not been carried out in MOR Eastern Addis Ababa branch office. For this reason, the case study project was carried out in MOR Eastern Addis Ababa small tax payer's branch office.

1.7 Limitation of the study

Despite several contributions that the study was intended to provide, the researcher faces some problems in conducting the study. The main limitations are that the tax audit practice and its limitations are focused only on the MOR East Addis Ababa branch for small taxpayer's branch office, without involving other branches and regional tax authorities. In addition, there is a lack of secondary data sources related to the branch's assessment of tax audits that could allow obtaining more information about the study and due to lack of time tax payer's perception is not included in the study. However, since the researcher will take the necessary precautions, these restrictions will not affect the results of the study.

1.8 Organization of the study

The first chapter presents the background of the study, statement of problems, research questions and objectives of the study, the significance of the study, the scope of the study, the limitations of the study and the organization of the study. The second chapter presents the literature review part of the study.

The third chapter presents an overview of the research methodology that researchers use to collect the relevant data to achieve the objectives of the study. It describes the research design, research approach, sampling design, data source, and method of data presentation and analysis and discussion and interpretation.

The fourth chapter deals with the presentation, analysis and interpretation and discussion of the results of the study according to the research objectives and questions. Finally, chapter five presents a summary of the key findings, conclusions and recommendations arising from the results of the study in chapter four.

CAPTER TWO

2. REVIEW OF LITERATURE

2.1 Introduction

This section provides a brief overview of the existing theoretical and empirical aspects of tax audit practice and its challenges in three sections. The first section provides a theoretical overview of tax audits. The second section presents the empirical findings on tax audits and related topics and the third section addresses the research gaps underlying this study.

2.2 Theoretical Literatures

2.2.1 What is Tax Audit?

According to (OECD, 2006) A tax audit is an examination of whether a taxpayer has correctly reported his tax liability and fulfilled other obligations. It is often more detailed and comprehensive than other types of investigations such as general desk audits, compliance visits, or document matching programs. (Biber, 2010) The role of an audit program in a modern tax administration must go beyond simply reviewing a taxpayer's reported obligations and identifying discrepancies between a taxpayer's declarations and supporting documents. (Barreca & Ramachandran 2004) stated that the purpose of tax audit is to check tax evasion and ensure compliance with laws and regulations.

Tax audit plays a crucial role in ensuring tax compliance through effective enforcement of tax laws. The audit staff carries out thorough checks to check whether selected taxpayers have correctly reported their tax liabilities. This includes reviewing the taxpayer's systems, books of accounts and other relevant information. The audit may also include a comparison of the taxpayer's records with those of its suppliers or other government departments and agencies as sources of information. To ensure its effectiveness and efficiency, appropriate procedures and the use of modern audit tools and techniques are essential (OECD, 2006).

A tax audit is one of the most sensitive contacts between the taxpayer and a tax authority. This is the presence of an auditor at the taxpayer's home or business premises, associated with the investigation of private and business matters and the collection of information from the taxpayer's books and records, or simply disrupting the daily routine of work the taxpayer (OECD, 2004).

Most taxpayers report their tax liabilities more accurately when they believe that the tax administration has the ability to detect unreported liabilities and that their discovery could result in large penalties (Biber, 2010). Thus, a tax audit results in increased tax revenues in two ways: (1) directly through the assessment of additional taxes; and (2) indirectly, by discouraging all taxpayers from underreporting their liabilities. Furthermore, (Barreca & Ramachandran, 2004) stated that the purpose of tax audit is to check tax evasion and ensure compliance with laws and regulations.

2.2.2 Purpose of tax audit

The (OECD 2006) attributes tax audits to six reasons. These are:

- Promote voluntary compliance.
- Determination of violations at the taxpayer level
- Collect information on the “health” of the tax system (including patterns of taxpayer compliance behavior).
- Intelligence gathering.
- Taxpayer education.
- Identify areas of law that require clarification or modification.

a) Promotion of voluntary compliance

Promotion of voluntary compliance by the taxpayers with the tax laws is envisaged as the primary role of the audit program. This is achieved by:

- i. Reminding the taxpayers of the risks associated with non-compliance that serious abuses of the tax law will be detected and appropriately penalized.

ii. Taxpayer education provided by the auditors during the audit creates awareness among the taxpayers of their obligations.

b) Detection of non- compliance at the taxpayer level

This is achieved by concentrating on major areas of risk relevant to taxpayers likely to be evading their responsibilities. This may bring to light significant understatements of tax liabilities and additional tax revenue collections.

c) Gathering information on the “health” of the tax system (including patterns of taxpayers’ compliance behavior)

Audit results may provide information on the general well-being of the tax system. Audits conducted on a random basis can assist overall revenue administration by gathering critical information required to form judgments on overall levels of tax compliance. This information can over time be used to identify trends in overall organizational effectiveness and to gather more precise information that can be used to inform decision making on future compliance improvement strategies, to refine automated risk based case selection processes and even support changes to tax legislation.

d) Gathering intelligence information

Audits can reveal information about tax evasion and tax avoidance schemes involving large numbers of taxpayers, which can be used to carry out large-scale anti-abuse projects.

e) Educating the taxpayers

The tax audit process is expected to contribute to continuous engagement in awareness programs aimed at creating compliant taxpayers during the audit process. Additionally, tax auditing is critical to minimize the level of tax avoidance and evasion and thereby increase voluntary compliance by providing input to the Department's taxpayer education programs.

f) Identifying areas of the law that require clarification/ amendment

Audits can reveal areas of tax law that are gray and problematic for taxpayers, and therefore require further efforts by the tax authority to clarify legal requirements and better educate taxpayers about what they must do to comply with them in the future.

2.2.3 Tax audit legal frame work

The efficiency and effectiveness of a revenue body's audit activities depends critically on the nature and scope of powers in the underlying legal framework in place, including the provision of adequate powers for obtaining information and an appropriate regime of sanctions to deter and penalize non-compliance. The efficient and effective conduct of audit activities requires that a revenue body 's audit and investigation staff have appropriate powers of access to information held by the taxpayer and other parties so that taxpayer's liabilities reported in their returns can be properly verified or, in the absence of returns, be accurately established. There should also be an appropriate regime of sanctions to punish and deter non-compliance (OECD, 2006).

According to (MOR, 2019) Tax audit is an examination of whether a taxpayer has correctly assessed and reported their tax liability and fulfilled their obligations. This examination can only proceed if it is supported by a robust legal framework, otherwise, it would be subject to challenge. In this regard, Article 28(1) of the Federal Tax Administration Proclamation, 983 of 2016, provides the legal basis for audit activity in Ethiopia and can be said to be the foundation upon which tax audits are premised and conducted. It provides that subject to this Article, the Ministry may amend a tax assessment (referred to in this Article as the "original assessment") by making such alteration, reductions, or additions, based on such evidence as may be available, to the original assessment of a taxpayer for a tax period to ensure that:

D)in the case of a loss under Schedule 'B' or 'C' of the Federal Income Tax Proclamation, the taxpayer is assessed in respect of the correct amount of the loss for the tax period;

II) In the case of an excess amount of input tax under the Value Added Tax Proclamation, the taxpayer is assessed in respect of the correct amount of excess input tax for the tax period;

III) In any other case, the taxpayer is liable for the correct amount of tax payable (including a nil amount) in respect of the tax period. Emphasis added.

It is through tax audit activity, that the object of Article 28(1) of the Federal Tax Administration proclamation in particular amending the “original assessment” can be achieved. Accordingly, tax audit activity seeks to assess taxpayer compliance with the tax laws (Proclamations). The assessment of taxpayer compliance with the tax laws (Proclamations) during audit activity for a given tax period demands of the auditor superior working knowledge of tax law and its connection (interface) with the accounting framework relevant to the taxpayer if fair & accurate tax assessments are to be issued. Exercising fairness in the course of duty (audit activity) is a cardinal obligation required of the auditor as envisaged by article 6(2) of the Federal Tax Administration Proclamation. Fair tax assessments reduce the incidences of tax appeals which in turn increase taxpayer confidence in the Ministry reflected in improved compliance.

Article (28(1)) envisages evidence-based audit activity and requires the use of robust audit procedures to collect appropriate audit evidence. This implies that the use of arbitrary methods to raise tax assessment would be outside the premises of the law (tax) and are subject to litigation. Accordingly, auditors are required at all times to use credible information from trusted sources for example declarations by consumers (inputs), IFMS etc. Taxpayers are equally under obligation to maintain records for purposes of the tax law (Article 17 of the Federal Tax Administration Proclamation), to ensure that the evidence required by the auditors is available. Obtaining appropriate audit evidence during audit activity is not expected to be challenging as there is a sufficient legal framework to ensure that this information is provided to the auditors. This includes the right to inspect taxpayer’s documents at all reasonable times pursuant to article 18 and to at all times and without notice, full and free access to any premises, place, goods, or property, any document, and data storage device, make an extract or copy of any document,

seizure of documents in the terms of Article 66 of the said proclamation. However, the powers under article 66 are vested only in the Director General or any officer specifically authorized by the Director General to exercise such powers (Article 66(2)). Accordingly, express permission of the Director General must be sought. That said, officers will be required to treat the taxpayers with courtesy and respect even when this involves seizure of documents (Article 6(2)). Further, article 28(1) above alludes to amendment of the “original assessment”. This in accordance with article 25 read together with articles 2(29) and 2(30) of the said proclamation is a self-assessment of the taxpayer pursuant to article 2(28) in respect to Value Added Tax, Excise Tax, Turnover Tax, Advance Tax and Income Tax.

Following the above, it is envisioned that tax audit activity starts with the taxpayer’s declaration (self-assessment) and any subsequent amendments must be anchored on such submissions. The tax assessments thereof are referred to as “amended assessments” in the terms of article 28 of the Federal Tax Administration Proclamation. The above notwithstanding, it is possible for audit activity to commence in the circumstances where the taxpayer fails to file a tax declaration. Article 25 is instructive and provides that when a taxpayer has failed to file a tax declaration for a tax period as required under a tax law, the Ministry may have based on such evidence as may be available and at any time, make an assessment (referred to as an “estimated assessment”) of:

- a) In the case of a loss under Schedule ‘B’ or ‘C’ of the Federal Income Tax Proclamation, the amount of the loss for the tax period;
- b) In the case of an excess amount of input tax under the Value Added Tax Proclamation, the amount of the excess input tax for the tax period;
- c) In any other case, the amount of tax payable (including a nil amount) for the tax period.

In this case i.e. where the taxpayer fails to submit documents, adjustments may be based on evidence available. This could include substantiated third party information from sources like IFMIS, Report Portal, ECX, input tax claimed by other taxpayer. That said, the article uses the

word, ‘‘may’’ and not ‘‘shall’’, implying that the auditor is not prevented from making adjustments or issuing estimated assessments even in the absence of evidence, although, it is good practice to rely on evidence, for instance industry averages to avoid costly litigation arising out of unjustifiable assessments. The requirement to rely on evidence as envisaged by article 28 and 25 during audit activity underpins best practice which requires that tax audit activity must be occasioned by a sound risk management system that identifies and flags non complying taxpayers. This is possible if risk management is evidence based and corroborates all data sources in its domain. It is on the basis of the identified risks that a robust audit program is developed for greater returns (audit yield and coverage).

2.2.4 Nature and Importance of Tax Audit

Tax audit like any other audit is a compliance check. The difference is that it seeks to confirm whether the taxpayer has complied with tax legislation and the obligations provided thereof. Accordingly, audit procedures must be planned in manner that seeks to assess the level of taxpayer compliance with the tax laws (MOR, 2019). That said, tax law sits on an accounting framework which is what taxpayers use to provide the financial position of their enterprises. Accordingly, tax audit envisages an in-depth understanding of the taxpayer’s accounting system in order to determine whether the tax account fully complies with the provisions of tax law since any adjustments during audit will be made on the basis of the taxpayer’s declaration.

This tax audit is a process in which the tax office attempts to confirm the figures you provided on your tax return. In this sense, a tax audit involves checking whether a taxpayer has correctly reported his tax liability and fulfilled other obligations. It is often more detailed and comprehensive than other types of investigations such as general desk audits, compliance visits or document matching programs (OECD, 2006). Accordingly, the tax audit involves an in-depth understanding of the taxpayer's accounting system to determine whether the tax accounting is fully in compliance with tax law, since any adjustments during the audit are made based on the taxpayer's declaration (MOR, 2019).

According to (Badara, 2012), the objective of tax audit is to establish a viable and effective tax administration to deal with the ever-changing economy, develop strategies to resolve tax disputes between the tax authority and taxpayers and maintain a strong mechanism to deal with tax avoidance techniques , available to various organizations but prone to tax abuse, to bring delinquent taxpayers into the net of tax authorities to prove the completeness, accuracy and timely filing of the tax returns filed by the taxpayers.

As (Biber, 2010) noted, the role of an audit program in a modern tax administration must go beyond simply reviewing a taxpayer's reported obligations and identifying discrepancies between a taxpayer's return and supporting documentation. In addition, the author found that most taxpayers report their tax liabilities more accurately when they assume that the tax administration has the ability to detect unreported liabilities and that their discovery can result in large penalties. Thus, a tax audit results in increased tax revenues in two ways: (1) directly through the assessment of additional taxes; and (2) indirectly, by discouraging all taxpayers from underreporting their liabilities. In addition, (Barreca & Ramachandran 2004) stated that the purpose of tax audit is to check tax evasion and ensure compliance with laws and regulations.

2.2.5 Audit techniques

In order deliver high-quality results, auditors need access to approved procedures, guidelines and tools. Obviously, such products vary significantly depending on the variety and complexity of the systems managed by each tax administration. Nevertheless, certain requirements can be identified that must be met so that auditors can carry out their work efficiently. The first essential tool is a comprehensive audit manual. Such a tool can help achieve consistency in dealing with taxpayers, correctly interpreting legislation and correctly applying operational procedures. It can also assist in interpreting information and responding to requests for information from external bodies (e.g. government, ombudsman, complaints, etc.). Conducting audits is also made easier if audit officers can prepare their audit plan with some awareness of how particular industries and businesses are run and what profitability and costs are likely to be expected from a business of a particular size and location in a particular one Region (OECD, 2006).

An auditor uses various techniques to examine the books and records behind a tax return. These vary depending on the customer and tax system. Broadly speaking, they will adhere to a few basic principles:

a) Analytical review - An analytical review of financial statements and tax returns as filed is often performed in the preliminary stages of the audit. Metrics such as gross profit and inventory turnover ratio are used to test the accuracy of a taxpayer/registrant's reported sales, cost of goods sold, or ending inventory. Unusual discrepancies will be identified and addressed during the taxpayer/registrant interview and additional audit procedures will be developed if necessary.

b) 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 either from the taxpayer/registrant or from other sources; conducting the audit requires judgment, imagination, and the use of information outside of the accounting records. Field investigations are also used to collect information about important events such as (i) backdoor trading, (ii) disguised transactions, (iii) relocation of investments, and (iv) other data on transactions that the responsible auditor considers to be of possible nature Related to the discovery of irregularities. This includes an on-site inspection of the taxpayer's current terms and conditions through on-site physical inspections of the original transaction documents and supporting documents; Assets and liabilities such as cash, accounts receivable, inventories and accounts payable; and other business content.

e) Records Examination - Key approaches to detecting false accounting include auditing books and documents at the taxpayer's office or branches, auditing counterparties, and auditing savings and deposit accounts. Examples include:

- Cross-checking purchase and sales invoices to determine the possibility of confidential sales;
- Cross-checking declared sales with funds deposited in bank accounts to identify evidence of diverted revenue;

- Cross-checking appointment or order books with sales invoices to look for the possibility of off-record sales; and
- Review purchase and sales invoices for information that may indicate additional income

f) Third party information- Third Party Information/Counterparty Audits - Where warranted, third party information may be obtained as part of an audit to verify the taxpayer's income, for example:

- Financial institutions and public companies have cross-referenced interest and dividend information with the taxpayer's report in their report Tax declaration;
- Adjustment of foreign income; and
- For example, other parties may send notices to real estate agents requesting that they disclose information about an individual's rental income.

2.2.6 Types of Tax Audit

Tax audits can vary in their scope and the intensity of their implementation. The type of audits performed should reflect the risks to be managed and the taxpayers' desired audit coverage. Too many narrowly focused individual audits (issue audits) provide a high level of audit coverage, but at the expense of audit quality, tax revenue, and missed opportunities to properly detect taxpayer violations. On the other hand, audit activities with an excessive number of in-depth audits reduce the number of audits that may be conducted, which may also result in a lower overall deterrent effect (OECD, 2006).

Therefore, it is inappropriate to conduct all audits based on a comprehensive review of documentation across all tax obligations and all periods where changes are possible. Such an approach wastes resources targeting compliant taxpayers and limits the number of audits that can be conducted. Therefore, tax authorities should aim to achieve a balanced audit program that takes into account audit coverage, audit quality and general deterrence considerations (Biber 2010). As noted by (OECD, 2006), (MOR, 2019) and (Biber, 2010), tax audit program in a

function-based administration includes desk audits or verifications, field audits, registration audits, advisory audits, records audits, reimbursement audits, problem-oriented audits, comprehensive or complete audits and fraud investigations. These types of tax audits are briefly explained below.

a) Comprehensive Audit

A comprehensive audit is all-encompassing in scope and includes an in-depth examination of all information relevant to calculating a taxpayer's tax liability for all types of taxes for a specific period. Given the broad scope of application, conducting a comprehensive audit is typically time and resource intensive, thereby reducing rate coverage for taxpayers who might 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 and/or business activities which are unusually complex.

b) Desk Audit

A desk audit is used as a preliminary review of statements, analyzing accuracy, completeness and proportions and cross-checking information to determine whether further review or investigation is warranted. Implicitly, these are returns that are stated at a certain level of risk. With this type of audit, the taxpayer is not officially notified of the upcoming desk audit. He only finds out about this when letters are written to him asking him for certain documents or explanations. Essentially, it involves ensuring a certain level of compliance with tax laws, rules and regulations and carrying out administrative controls on tax returns filed.

Basic audits are carried out at the tax office when the auditor is satisfied that all the necessary information can be determined through an internal audit.

c) Issue Audit

This is a limited scope audit that may be limited to specific items on a tax return and/or a specific type of tax. The aim is to examine the key potential risk areas of non-compliance. This type of audit is recommended because it uses relatively fewer resources than comprehensive audits and allows for greater coverage of the taxpayer population. The audit typically focuses on a single tax type, period or item. If an issue review is escalated to a comprehensive review, approval from the team coordinator must be obtained and the procedures required for comprehensive reviews must be followed.

D) Desk Issue Audit

This may be done in relation to specific matters of a taxpayer or company if the auditor is satisfied that all the necessary information can be ascertained through an office audit. Any necessary or relevant information or data can be obtained from internal sources or official sources without the need to contact the taxpayer. Problem checks can be carried out either on-site or on-site.

e) Field Issue Audit

This is the escalation of a desk exam into a field activity or exercise. It is important to remember that the audit is limited to key compliance issues or to one tax type or tax period. On-site audit is often used to check whether a taxpayer has normally complied with its PAYE, VAT/TOT and excise, withholding or income tax obligations for a particular tax period. Care should always be taken to ensure that derailments do not occur and that field tests turn into comprehensive tests.

The goal of on-site auditing is to focus on a shorter period of time for a single tax item to achieve faster and more effective results. Therefore, this type of exam should be the most common and effective exam type to achieve faster results.

f) Special Audit Projects

Audits can be organized as a separate project for a targeted or specific group of taxpayers in a certain period of time to check compliance in the industry. These exam projects can cover an industry, trade, profession or sector. They consist of specific controls and are used to address a specific risk or determine the level of non-compliance in a particular sector, industry or trade. For this type of audit to be effective, all taxpayers in the target sector must be considered and processed within the shortest possible time.

g) Advisory Visit Audits

All registered taxpayers or companies must be visited to provide advice on tax obligations and taxpayer rights, as well as other developments in the tax system and administration. It is strongly recommended that auditors conduct these audits to stay abreast of their taxpayers' compliance trends and provide timely advice to improve compliance. These audits are expected to be carried out spontaneously and should therefore not last longer than one day.

h) Refund Audits

This involves verifying a taxpayer's eligibility for a tax refund before processing the refund. The predominant claim for reimbursement is VAT and/or withholding tax, which are submitted monthly. The details are set out in the refund policy.

i) Investigation Audit

These are the most serious cases of non-compliance with criminal law implications. It requires specialized knowledge of investigations and evidence, as these often include seizing documents, taking witness statements, and preparing briefs for courts. It requires special skills in investigative and evidentiary requirements.

j) De-Registration Audits

In order to determine outstanding obligations or liabilities, a de-registration check is carried out in all reported cases of cessation of operations, liquidation or uncertainty. The focus of the audit

is on determining the taxes due and all other relevant issues. The aim of the deregistration check is to ensure a proper exit from the tax register with the clarification of the associated obligations and liabilities.

k) Field Audit

Due to the nature and scope of their work, regular appraisers can only conduct limited desk audits by reviewing accounts and tax returns. To address this drawback and improve tax compliance, tax authorities conduct on-site audits of taxpayers by physically conducting the audit at the taxpayer's office. However, before the examination begins, taxpayers are formally informed of the auditor's arrival and the auditor's requirements for the documents to be examined are also queried in advance. On-site audit is a physical examination of documentary evidence and materials at a taxpayer's premises to confirm the facts and figures of tax returns filed by corporate taxpayers.

2.2.7 Audit Case Selection Methods

The first key to a successful audit lies in the case selection methodology. Selecting cases using risk management techniques is necessary to ensure that the audit program is fully consistent with the administration's compliance strategy and to establish the necessary audit trails to show why cases were and were not subject to an audit. This topic is covered in more detail in the accompanying papers to this document, with the second document also containing detailed case studies of some existing case selection frameworks (OECD, 2006).

The goal of compliance risk identification is to identify as comprehensively as possible the specific compliance risks facing a financial authority, minimizing the possibility of oversights and facilitating subsequent in-depth analysis. The “source” and “impact” of risks form two dimensions of the risk identification phase. It is important to determine the source of the risk to understand what might be causing it (OECD, 2004).

However, tax administrations do not have sufficient resources to carry out thorough on-site audits of the activities of all taxpayers or a comprehensive cross-audit of all invoices or transactions.

Because the tax administration has limited resources and has relatively large numbers of taxpayers to manage (particularly in small and medium-sized enterprises), it must design the audit program in such a way that audit resources are deployed on a risk-based basis to achieve the greatest possible compliance and revenue objective (OECD, 2004).

Accordingly, the first key to a successful audit is the case selection methodology. It is critical to select exam candidates consistent with program objectives. Regardless of the exam objectives, the ability to narrow the pool of potential exam candidates is necessary to achieve program objectives and make optimal use of exam resources. Regardless of how automated and efficient the audit process is, audit effectiveness would not be achieved if unsuitable audit candidates are selected. Therefore, managing an effective audit program requires decisions about selecting the best audit case strategy or combination of strategies. Selection strategies may vary depending on the tax type. It can be based either on the tax amounts reported or on the type of industry (Barreca & Ramachandran, 2004).

According to (Barreca & Ramachandran, 2004), audit case selection methods range from simple random selection to more complex rule-based selection as well as sophisticated statistical and data mining techniques. Selection strategies can vary by tax type and even within a single tax type. Common case selection methods include random selection of cases, screening or case review by investigators, control systems and automated risk assessment systems, as well as data mining and statistical analysis.

a. Random selection

It is unbiased in the selection of audit cases and serves to combat corruption. This method is perceived as fair by taxpayers. However, since it clearly does not focus on the highest risks, it may incur high opportunity costs when used as a single-case selection method (Vellutini, 2010), as cited by (Mihret, 2011). However, the criteria or information-based selection system also has the disadvantage that it requires certain indications of non-compliance, which may actually be a sign of other things, such as a change in the economic situation in that particular industry (OECD, 2006).

b. Screening or case review by auditors.

This is the traditional method of selecting audit cases. It comes from a time when there was little or no IT support, the available data was already limited and skills risk management techniques were less well developed at a strategic level. The advantage of such a methodology is that it makes full use of local knowledge, generates significantly less resistance from caseworkers, can be used to address specifically defined risks, and can be operated essentially without IT support (OECD, 2004). Manual selection of audit cases is based on the auditor's own knowledge of the taxpayer's behavior and environment. However, no patterns of non-compliance can be identified. An effective case plan may consider a range of investigative and analytical approaches, which may vary depending on the area of risk and the circumstances of the individual taxpayer. The decision regarding the type of audits to be performed and the records required by the auditor to address specific issues will be influenced by the nature of the taxpayer's business, the adequacy of the books and records, and the materiality of any adjustments. According to (OECD, 2006), the techniques used for audit review include analytical review, investigative approach, field review, record review and cross-review.

c. Analytical Review

An analytical review of annual financial statements and tax returns is often carried out in advance of the audit. Metrics such as gross profit and inventory turnover are used to test the accuracy of taxpayer-reported sales, cost of sales, or ending inventory.

2.2.8 Condition for a Good Tax Audit practice

In order for the tax auditor to carry out a good audit, the following conditions must be met:

1. The tax auditor must be familiar with the environment in which he works. It is an extremely important condition that the tax inspector is properly trained about the political, economic, social, cultural and religious environment of the taxpayer. A good knowledge of his surroundings affects the decision he makes.
2. The tax officer should be motivated to carry out tax audits, he should be properly

- trained and have experience in his field. The tax auditor should not get carried away by corrupt practices that render the purpose of tax audit useless.
3. Tax audit should be properly supervised by professionals and when new tax auditors are appointed to conduct the audit, they should also be supervised by senior ones to ensure that the right thing is being done.
 4. Specialization should be encouraged. The cases should be grouped. This enables tax audit staff to specialize in a particular area of expertise.
 5. The way the exam is conducted should be changed. The use of a computer should replace the manual process, as it greatly facilitates the work and helps retain information for a long time. This will improve the efficiency of the exercise (Ogundele, 1999) as cited by (Adediran et al., 2013).

2.2.9 Key Principles of Tax Audit proficiency

There are a number of important principles that apply to quality audits and are visible in the audit programs already in place in (OECD, 2006) administrations, regardless of jurisdiction or revenue type. Compliance with these principles should not result in the removal or limitation of the powers granted by statutory or procedural guidelines. Rather, they describe the way an audit should be conducted.

Accurate – They identify violations, lead to a correct interpretation of the law, and lead to a correct assessment of liability.

Efficient - They minimize the compliance burden on the taxpayer and minimize the use of the tax authority's resources in terms of the achieved result. Goal – All decisions made are based on facts.

Transparent – Because issues are developed and fully documented in the working papers, these developments are generally discussed with the taxpayer as the audit progresses.

Fair – Technically correct and procedurally correct in accordance with domestic laws and policies.

Completed – The audit has a defined start and end point and the taxpayer knows when the audit process is complete. **Defensible** – The decisions made in the audit and the actual audit process can withstand external scrutiny.

Consistent – The same taxpayer circumstances should produce the same result regardless of which auditor performs the audit.

2.2.10 Capabilities of Tax auditors

According to (OECD, 2006), the required skills of tax auditors in tax offices have generally been determined through analysis of the activities required to carry out specific audit tasks, as well as through practice and experience. They were often based on the idea that auditors were generalists who could later develop into specialists to meet the needs of the organization. Tax auditors also play a crucial role in the effectiveness of the SAS in many countries. In addition to their primary job of detecting and preventing violations, tax auditors are often required to interpret complex tax laws and conduct extensive audits of taxpayers' books and records. The numerous roles assigned to tax auditors require the recruitment and maintenance of competent tax auditors with technical knowledge, audit skills, and tacit knowledge (Isa & Pope, 2011). In addition, the attitude of tax auditors when conducting an audit can influence the compliance behavior of corporate taxpayers. The way tax auditors interact with taxpayers during an audit has a lot of influence on their future compliance behavior. For example, if taxpayers are treated with respect during the audit, there may be a stronger incentive for taxpayers to comply voluntarily.

Responsibility and accountability for the improvement of tax auditors, audit managers and audit supervisors generally lies with the relevant employee and their direct supervisor and/or the local management team. Responsibility and accountability appear to be influenced by organizational structure. Human resources departments (where applicable) often share responsibility and/or make a significant contribution to this process together with tax audit/training departments

(OECD, 2006). The tax audit policy and strategy will establish the concept that tax audit can be a strong and effective tool to help taxpayers understand their tax/customs obligations and can help taxpayers put systems in place to ensure the correct tax assessment generate correct time. Develop the skills of MOR staff: The tax audit policy and strategy will focus on developing the professionalism, integrity and competence of MOR's tax auditors to ensure the successful completion of high quality tax audits.

2.1.11 Management Support (MS)

The review of the efficiency and effectiveness of the activities of tax authorities is determined by the nature and scope of powers in the basic legal framework and is significantly facilitated by information and communication technology. Especially in this era of strong competition and complex business world, the use of information technology and auditing software becomes a necessity (Rezaee et al. 2018). Today, every business activity is integrated with IT using Enterprise Resource Planning (ERP), online marketing and online reporting. Therefore, appropriately qualified IT auditors should be trained to improve the quality of financial reporting and auditing of business organizations (Barta, 2018). An effective tax audit requires the support of senior management and resource allocation, the competence of audit staff and the quality of the audit (OECD, 2006).

2.2.12 Tax Audit Effectiveness (TAE)

An effective audit process must deliver the correct audit opinion, supported by appropriate audit evidence and professional judgment, and in which shareholders and other stakeholders have confidence (Hobbs, 2013). (Olaoye et al., 2018) Effective on-site tax auditing has been found to have a positive impact on tax productivity in Nigeria. Tax advisors must carry out their duties professionally and successfully and confirm that taxpayers are meeting their tax requirements. On the other hand, a tax investigation is the process of collecting evidence to decide the likely amount of taxes evaded and the likely lawsuit of taxpayers engaging in tax evasion efforts. The quality of the tax audit focuses on the target risk, the technical correction, the procedural

correction and the correct reference. The prosecution of tax violations, the detection of violations and the expected additional revenue from tax audits are measures of the effectiveness of tax audits (OECD, 2006).

An effective audit poses a real challenge and examines the details of financial transactions to make an opinion on whether taxpayers are providing a correct and reasonable view. It is expected to adhere to the required audit and ethical values. In addition, to carry out an effective audit activity adapted to the risks facing the company, the business agreement and government regulation, auditors must be theoretically and practically equipped, knowledgeable, curious and free from bias, their approach being informed by an awareness the regulatory environment must provide the right audit opinion in which investors have confidence (Hobbs, 2013). The specific liability of taxpayers varies from one tax role to another and from one jurisdiction to the next. Tax audit also helps tax authorities achieve revenue targets that ensure the financial health of the country and individual states. It derives voluntary compliance and generates additional tax revenue, both of which help tax authorities reduce the tax gap between the taxes due and the amount collected (Barreca & Ramachandran, 2004).

2.2.13 Tax Audit Challenges and Problems in Revenue offices

In recent decades, many developing countries have undertaken major reforms of their tax administrations, including tax audits, to increase revenue and curb corruption. The rapid growth in the size and form of business conducted over the Internet and other communications networks has raised a number of concerns regarding the formulation of tax policy and the effectiveness of existing administrative procedures and techniques. But there are many challenges like: -

Weak tax administrations -a well-functioning tax administration is key to mobilizing domestic resources in developing countries and the design of the tax system should be influenced by the ability of tax administrations to administer it. Yet many administrations continue to be staffed by poorly trained and low paid officials, have structures which do not encourage an integrated approach to different taxes, and are marked by imbalanced service and enforcement functions (IMF, O. 2011)

Low taxpayer morale- corruption and poor governance are often deeply entrenched. Corruption indicators are strongly associated with low revenue (indeed corruption functions like a tax itself, and is likely to be a particularly regressive and inefficient form of taxation), as are other governance indicators (weak rule of law, political instability). Causation can run both ways, but the centrality of tax collection as an exercise of state power gives addressing governance issues in tax collection wider importance (IMF, O. 2011).

Inefficient tax administration/Audit: - While tax laws impose obligations on taxpayers to contribute to government revenues, the actual amount of revenues flowing into the hands of any government depends on the effectiveness of its revenue administration and Tax audit practices (Baurer, 2005). Weakness in revenue collections leads to inadequate tax collections. For a number of reasons, efficient tax administration is a major problem in developing countries.

Insufficient Audit Staff and materials: - Not only in developing governments face an uphill battle in bringing individuals and businesses into the taxation process, but governments face insufficient administrative -staff with no skills, high levels of illiteracy among taxpayers and tax collectors, lack of sufficient computer and facilities, and lack of reliable statistical data (Kangave, 2005).

Besides, according to (Kitillya, 2011) tax audit challenges are classified in to three categories. The first was Tax Administration Challenges - which includes raising revenue to GDP ratio; broadening the Tax Base; Changing of Staff mindset and Staff Integrity; Overreliance on International Trade Taxes; Auditing of Specialized Sectors; and Tax Evasion. The second challenges were focused on Tax Policy Reforms which emphasize on addressing Tax Incentives and Exemptions. And the third challenges were related to External Factor Beyond TRA Control which includes: Power availability and Stability; absence of National Identity Card; absence of Bio-data; Physical Location of Business Entities; Internally Robust Integrated Operational Systems; and Externally Poor ICT Backbone.

Underground Economy-There is a significant “underground” or “grey” economy with a high percentage of unregistered and/or non-filing taxpayers as well as filers who underreport their income, turnover, or profits (Baurer, 2005).

Weak Inter-Agency Coordination: - Another problem concerned interagency coordination. Domestic tax and customs administrations are still weak and opportunities are underused. Trend analysis by customs and tax managers can lead to the development of harmonized compliance models and response strategies. It needs to go beyond just tax authorities, multiple government regulators, the financial sector, etc. The Experience in many countries shows that improving information sharing between authorities is one of the most effective means of improving fair and efficient revenue collection. The easy ability to cross-reference tax returns from different authorities has the potential to reach a more general level. Tax collection is essentially about information and the ability to draw on multiple sources of information to identify taxpayers and their actual tax liability. Therefore, the possibility of drawing on information from all relevant institutions and ministerial offices, among others, has enormous potential for improving tax collection through better knowledge of taxpayers' assets and activities. However, due to bureaucratic infighting and the general lack of top-level leadership, these forms of information sharing remain far too limited to bring the assets of high-net-worth individuals more clearly into the public eye (Kitillya, 2011).

Lack of specialization in the tax administration- Before a tax return is accepted for filing; a tax auditor pre-reviews the return for “accuracy” and may provide “advice” to the taxpayer. The same tax auditor can then “assess” the tax liability, subsequently be responsible for the collection of unpaid amounts and even determine whether an inspection visit is necessary. This close relationship, where the tax inspector is responsible for a specific group of taxpayers, can easily lead to corruption (Baurer, 2005). Furthermore, sustained political will is an essential factor for the successful practice of tax auditing at all levels of a nation. Key condition for complementing technical capacities: Political commitment must come from the highest levels of leadership in the country and should be consistent, unwavering and sustained. Significant progress has been made,

but minimal in areas where this has not been the case. A holistic approach is essential - benefits from administrative improvements can easily be canceled out by exemptions that narrow the tax base.

According to (OECD, 2004), some tax audit challenges depend on the selection of clerks. These may be based on a limited data set without systematic cross-reference to other data available in the administration's system; Clerks, regardless of their experience, may miss aspects of noncompliance with which they are unfamiliar. Those who have the knowledge to carry out such screening usually also have the skills to carry out the substantive intervention. Therefore, there is an opportunity cost to asking them to perform such screening. Modern standards of appropriateness indicate that there should be a gap between those who select cases and those who handle cases.

2.3 Empirical Review

The previous sections introduce the theory, concepts, principles and best practices of tax concepts, tax audit practice program, tax audit and the role, importance and principles of tax audit. Therefore, in this section, some previous studies and their findings dealing with tax audit practice and its challenges in global, African and Ethiopian cases are summarized as follows.

(Muhammad, 2013) Conducted was an exploratory study on the enforcement practices of Malaysian tax auditors. The aim of the study was to examine their enforcement provisions in resolving disputes, arguments and underlying beliefs in examination processing. The study analyzed the interview data using the constant comparison method. This is a continuous process of identifying conceptual categories and their properties that emerge from data through consistent comparison of that data. The result of the study showed that tax auditors adapt their behavior to the environment in which they work and the behavior of the people they work with. Furthermore, it would be wrong to assume that tax auditors have fully internalized the legal framework they are tasked with applying and enforcing.

(Awitta, 2010) Conducted a study on the effectiveness of revenue collection strategies at the Kenya Revenue Authority in Nairobi and submitted a master's thesis to the University of Nairobi. The researcher used descriptive research design and data was collected through questionnaires and face-to-face interviews with Kenya Revenue Authority staff. The data collected was analyzed using SPSS, using descriptive statistics using tables, charts and graphs, and inferential statistics such as Pearson correlation to examine the relationship between variables. The study found that training of employees by the Kenya Revenue Authority improved their skills, knowledge and professional performance. In addition, the study found that taxpayer education has increased taxpayers' awareness of various tax systems. Finally, the study recommended strengthening taxpayer education as it is significantly related to taxpayer satisfaction.

(Adediran et al., 2013) examined the impact of tax audits and investigations on revenue generation in Nigeria. The general objective of the study was to examine the impact of tax audits and investigations on revenue generation in Nigeria. The study collected primary source data from four hundred and ten respondents who are employees of the Federal Inland Revenue Service and Edo State Board of Internal Revenue. The formulated hypotheses were tested with the Pearson correlation coefficient using SPSS output data. The study found that tax audits and investigations can increase the government's revenue base and also curb tax evasion in the country. The findings are that tax audits and investigations can increase the government's revenue base and also curb tax evasion in the country.

(Olaoye and Ekundayo, 2019) studied, the impact of tax audits on tax compliance in Nigeria was studied. The overall objective of the study was to examine the impact of tax audits on tax compliance in Ekiti State, Nigeria. The study used primary data where 60 questionnaires were randomly distributed to employees of the Federal Inland Revenue Service and Ekiti State Board of Internal Revenue Service. Multinomial logistic regression analysis was used as the estimation technique. The results showed that the fitting information of the multinomial logistic regression model was significant with a p-value of 0.040, which means that tax audit can affect tax

compliance. In addition, the likelihood ratio tests of multinomial regression showed that tax accuracy and current tax returns did not have a significant impact on tax compliance, tax law had an impact on compliance, while tax procedure had no impact on compliance during the study period had compliance with the regulations.

(Gurama & Mansor (2015) studied, the problems and prospects of tax administration in Gumbo State, Nigeria. The main objective of this work is to study the problems and prospects of tax administration in Gombe State. The method of data collection is based on secondary sources and field interview by the researcher: Problems identified include poor staffing, lack of facilities, poor record keeping and poor enabling environment. Results show that inadequate public awareness, lack of training, poor working conditions, poor pay and lack of motivational incentives are among the problems that arise lead to low tax generation.

(Harelimana, 2018) studied, the impact of tax audits on revenue collection in Rwanda was examined. The purpose of this study was to determine the impact of tax audits on tax collection in Rwanda. The study is limited to the 110 respondents from the Rwanda Revenue Authority (RRA) headquarters in Kigali. The study took a descriptive approach. Both primary and secondary data were used and then analyzed using SPSS version 21. The study found that tax audit does indeed impact revenue collection as, according to t-tests, there is a significant correlation between taxes collected before and after the audit. This clearly shows that tax audit increases revenue collection. This essentially means that the more tax audits that are conducted, the more revenue is generated.

(Mebratu, 2016), a study titled Impact of Tax Audit on Improving Taxpayers Compliance was conducted to examine the impact of tax audits on tax compliance in Ethiopia. The study used secondary data by reviewing a detailed examination of ERCA data from 2001/02 to 2014/2015. Inferential analysis using to bivariate regression and partial, the study found that there is a strong relationship between the likelihood of audit detection and the level of tax compliance. The regression result also shows that there is a strong relationship between the number of files checked and the degree of regression of the tax compliance coefficient.

(BEDADA, 2016) investigated, the impact of tax audits on tax compliance: The case of Selected Category “A” in Ethiopia. The aim of the study was to examine the impact of tax audits on tax compliance in Ethiopia. Data was collected using a structured questionnaire using both primary and secondary data. Descriptive statistical tools as well as correlation and multiple regression analyzes were used. The study found that the likelihood of a tax audit; Tax knowledge and education have a positive impact on the level of tax compliance. Fines/penalties also have a positive effect on compliance with tax regulations.

ABEBE, 2017) examined, the assessment of tax audit practice and its challenge: the case of the establishment of large taxpayers. The overall aim of the study was to assess tax audit practices and their challenges at large tax firms. A descriptive method of data analysis and both quantitative and qualitative research approaches were used. The data was collected from primary and secondary sources, with the primary data collected using a survey method from tax audit offices and large taxpayers. Through a structured questionnaire distributed to 55 tax audit staff respondents and 67 taxpayer respondents, secondary data came from academic published studies, internet sources, journals, and ERCA published and unpublished documents. The result of the study revealed that the analysis assumed that the tax audit has problems in applying information technology (SIGTAS/) to the maximum use of its capacities, incompetent auditors in combating tax evasion and tax avoidance and a weak taxpayer education program that the Taxpayers' level of compliance cannot be improved'.

Mensur & Mamo, 2022) evaluated, tax audit practices and challenges in Oromia. To achieve this objective, a sample of 112 taxpayers and 42 tax officials were conducted with a questionnaire survey at the Finfinne Branch of the Oromia Revenue Authority in Addis Ababa for the year 2021/2022. Both descriptive and quantitative analysis methods were used. In addition, interviews were conducted with deputy managers, branch managers, tax audit managers and tax audit team leaders from ORA and the branch. The results showed that practices to achieve the ultimate objectives of tax audit were at a moderate level; The Office's tax auditors do not make sufficient efforts to raise taxpayer awareness; They tend to focus on increasing state tax revenue collection,

including detecting tax evasion and avoidance, and do not focus proportionately on all types of tax audit techniques. The finding also showed that most tax audit cases are usually selected based on the criteria of annual profit declared by taxpayers and there is no established strategy that makes the selection of tax audit cases efficient and effective. Overall, tax auditing practices in the branch were poor. Regarding the challenges of tax audit, factors related to corruption culture, estimation of tax amount; consideration of illegal business practices; and taxpayers' lack of reliable and up-to-date record-keeping practices was identified as the most serious problem. In addition, policymakers must develop and apply improved systems.

2.4 Research gap

The aim of this section is to summarize the general idea from the previous literature. Although there are some studies mentioned above, most research has been conducted in this area. Its main concern is to demonstrate the positive relationship between tax audits and government revenue and tax compliance. In their analysis section, they pointed out that tax audit has increased government revenue by improving tax compliance and also reducing tax evasion and avoidance. To this end, the researcher is interested in assessing the tax audit practice and its challenges in MOR East Addis Ababa Small Taxpayers Branch. The researcher is aware that tax audit practices and their challenges have not been adequately studied in Ethiopia. Therefore, this study will expand this body of knowledge by assessing tax audit practice and its challenges to fill the gap, focusing on the function of tax audit, tax audit procedures, tax audit selection criteria, tax audit effectiveness and key challenges that face the tax audit area.

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This portion detailed the methodology used in the research and the study design implemented to meet the study's objectives. The aim of this section is to outline the research design, target population, sample design, sampling techniques, data sources, types of data collection instruments, and analysis methods.

3.2 Research design

The research conducted was based on a descriptive research design in order to evaluate the tax audit practice and its challenges in the Ministry of Revenue's Eastern Addis Ababa Small Tax Payers Branch Office. The choice of using a descriptive research design was made because the researcher was interested in describing the current perception of employees of tax audit department under study. The descriptive method of research is a technique used to gather information about the existing and present conditions. The research design aims to provide factual findings with sufficient and accurate interpretation. The findings from the descriptive research will assist decision makers in the authority to gain a better understanding of how to improve the compliance level of tax payers and enhance government revenue collection by addressing the major factors influencing non-compliance behaviors.

3.3 Research Approach

Furthermore, the researcher will employ both qualitative and quantitative approaches (a mixed research approach). The utilization of this mixed method is justified by its ability to overcome limitations in data collection and analysis in both qualitative and quantitative approaches. Additionally, this approach allows for a more comprehensive interpretation of findings, as any information missed by one approach can be addressed by the other. Moreover, employing a mixed research approach is considered the most valid and reliable way to gain a deeper

understanding of the broader and intricate social reality. Lastly, this approach aids in guiding respondents' perception towards the research problem being discussed.

The quantitative research approach with quantitative research questionnaire to obtain quantitative data to answer the research questions which is very imperative to meet the main objectives of the study. Furthermore, the quantitative approach is used to get primary data from in-depth interview, to evaluate the audit practice and its challenges. Therefore, since the main objectives of the study is to investigate the practice of tax audit and its challenge the study applied descriptive research design and mixed research approach.

3.4 Population and sampling design

3.4.1 Population

The population of this study was total 81 employees of tax audit department these are: junior tax auditors, senior tax auditors, team leaders, and tax audit process coordinator as of the data from tax audit and human resource department of the branch office.

3.4.2 Sample size and Sampling techniques

The tax audit department comprises a total of 81 employees, including 70 tax auditors, 10 tax audit team leaders, and one tax audit process coordinator. To ensure a high level of validity and reliability, the census method is employed to select the tax audit process coordinator. Given that the number of tax auditors and tax officials is less than 100, the researcher will utilize census sampling techniques while distributing self-administered questionnaires to the tax auditors and conducting interviews with the tax officials.

Summary of research methodology

Research techniques	Population	Sample size	Methods
Semi-structured questionnaire	70 tax auditors	The entire tax auditors by census method	Census /since the tax auditors are less than

			100
In-depth interview	11 tax official	The entire tax auditors by census method	Census /since the tax officials are less than 100

3.5 Methods of data collection

The research was utilizing primary sources of data. Primary data was gathered through questionnaires and interviews. A set of questionnaires based on a five-point scale (ranging from strongly disagree to strongly agree) was created to assess the attributes of tax auditors' perceptions on the assessment and collection practices of the revenue office.

3.6 Source of data and type of data

3.6.1 Primary data sources

Primary data is gathered by utilizing a structured questionnaire to obtain new and firsthand information from tax auditors and tax officials. The questionnaire includes both closed and open-ended questions. Closed-ended questions are simpler for respondents to comprehend and answer, as well as easier for the researcher to analyze promptly. Furthermore, qualitative data is acquired through structured face-to-face interviews with key informants from tax officials to supplement the data obtained from questionnaires. Additionally, the information gathered from interviews with tax officials allows the researcher to gain a more comprehensive insight into the research issue.

3.7 Data Processing and analysis

3.7.1 Data Processing

After collecting the necessary data from different sources, it was edited, coded and tabulated with the data.

3.7.2 Data Analysis

Data analysis in this study involves descriptive analysis, as the researcher aims to describe the current situation being studied. The researcher utilizes tables and percentages for the descriptive analysis.

3.8 Data Presentation

Upon completion of a thorough data analysis, the researcher will present the data gathered from the questionnaire through the use of frequency distribution and percentage tables in a clear and comprehensible format.

3.9 Ethical consideration

The researcher successfully engaged the respondents in the research process by presenting a well-crafted report that included an introduction, an explanation of the study's purpose, and the benefits participants would receive from participating. To ensure confidentiality and alleviate any concerns or hesitations, the researcher employed a coding method that eliminated any personal identification details such as names and addresses. Additionally, I reached out to the Ministry of Revenue's Eastern Addis Ababa Small Tax Payer's Branch Office to seek permission and support for data collection. All the information gathered was obtained directly from the respondents.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Introduction

This section delves into a comprehensive examination of the findings derived from the information collected from primary and secondary sources. The researcher utilized descriptive analysis to assess and explain the data; the original data of the study was organized using descriptive statistical methods. It employed descriptive statistics such as percentages and frequencies. This section showcases the outcomes of the survey, detailed interviews, and the discussion of the results. In order to gather their perspectives on the factors affecting tax audit practices, a total of 81 self-administered semi-structured questionnaires were distributed to tax auditors and officials from the Ministry of Revenue's Eastern Addis Ababa Small taxpayers' branch office, with 76 (94%) respondents returning the questionnaires to the researcher.

4.2 back ground information of respondents

Table 4.1 back ground information of respondents

Variables N = 76		Count	Percent
Gender	Male	33	43%
	Female	43	57%
Age	20-30	24	32%
	31-40 years	36	47%
	41-50 years	13	17%
	Above 51	3	4%
Highest level of education	BA Degree	49	64%
	Master's degree or above	27	36%

Field of study	Accounting	51	67%
	Economics	8	11%
	Management	10	13%
	Business Administration	4	5%
	Others	3	4%
Current job occupation	Junior tax auditors	17	22%
	Tax auditors	18	24%
	Senior tax auditors	30	39%
	Team Leader	10	13%
	Tax audit process coordinator	1	2%
Work Experience	Less than two years	13	17%
	2-4 years	17	22%
	4-6 years	30	39%
	6-10 years	7	9%
	Above 10 years	9	12%

According to the information provided in table 4.1, it can be observed that out of the total 76 employees, 43 of them (or 57%) were female respondents, whereas the remaining 33 (or 43%) were male. This indicates that the majority employees of MOR Eastern Addis Ababa are female.

Regarding ages of auditors, it can be observed that the largest proportion of tax auditors (47%) fell within the age range of 31 to 40 years. Following this, 32% of respondents were aged between 20 and 30, while 17% were in the 41 to 50 age group. The remaining 4% were over 51 years old. This analysis indicates that approximately 96% of tax auditors are within the peak of their careers, highlighting the importance for the tax office to maximize the effectiveness and efficiency of these individuals in order to successfully achieve its strategic objectives.

The data presented in above table illustrates that 64% of tax auditors held bachelor's degrees, whereas 36% possessed master's degrees. This table provides a breakdown of the educational attainment of the respondents.

Table 4.1 illustrates that out of the 65 respondents, the vast majority (67%) had educational backgrounds in accounting, with 13% in management, 11% in economics, 5% in business administration, and 4% in other fields. In general, the findings of the study indicate that individuals with degrees in accounting and finance, followed by management and economics, comprised the largest portion of tax auditors at revenue office. And work experience of as an auditor above two years and additional the field of specialization of the tax auditors other field of study are some respondent's agricultural economics and MBA. The majority of tax auditor's educational background is accounting and finance this helps the auditors easily to tax payers financial statement and other accounting record during audit time.

Table 4.1 displays the breakdown of responses as follows: 39% held positions as senior tax auditors, 24% were tax auditors, 22% were junior tax auditors, 13% were tax audit team leaders, and the remaining 2% were tax audit business process owners. Overall, the findings of the study indicate that over 85% of the participants were involved in tax auditing, suggesting that they possessed substantial knowledge in this area and were capable of understanding and responding accurately to the survey questions.

As presented in table 4.1 the professional background of tax auditors working at the small taxpayer branch office of the Ministry of Revenue in Eastern Addis Ababa. 17% tax auditors reported having less than two years of experience, while 17 (22%) had between 2-4 years, 30 (39%) had 4-6 years, 7 (9%) had 6-10 years, and the remaining 9 (12%) had over 10 years of experience. work experience of the tax auditor are above two years this is helps the auditors is better to tax audit.

4.3 Tax audit manual

The following table shows the responses of tax auditors on the existence of tax audit manual in the revenue office.

Figure 4.2 respondent views on the presence of tax audit manual.

Item	Description	Frequency	Percent
Presence of tax audit manual in the branch.	Yes	65	100%
	No	-	-
	Total	65	100

The tax audit manual is readily available for daily reference during audits. It can be accessed in both hard copy at the tax audit department and in soft copy on each auditor's PC. According to open-ended questionnaires with tax auditors, the purpose of the audit manual is to provide guidance to auditors when conducting audits of taxpayers. It outlines the necessary procedures to be followed and serves as a framework for planning, executing, and reporting on audits. The manual emphasizes a more professional and distinct approach to auditing, highlighting various standard techniques used to verify the accuracy of a taxpayer's liability to direct and indirect taxes. Additionally, the manual aims to be comprehensive, covering most recognized methods of detecting errors and underreported taxes. While the techniques employed may differ, the outcomes are typically similar. It is crucial for auditors to possess a solid understanding of tax law, and audits should be viewed as routine activities.

4.4 The role of tax audit practice

Table 4.3 the role of tax audit in branch office.

The role of tax audit	Frequency	Percentage
Increase government tax revenue	35	53.80%
Increase compliance level tax payers.	9	13.80%
Creating deterrent effect on non-complaints.	5	7.80%
Detecting tax evasion and avoidance.	13	20%
It trains tax payers.	3	4.60%

Compiled from questionnaire survey (2024)

As per the informative Note of OECD 2006 regarding strategies for tax audit capabilities general principle and approaches, the audit program conducted by a revenue body plays several crucial roles that, if executed efficiently, can greatly enhance the management of the tax system. These roles can be summarized as follows: Encouraging voluntary compliance, identifying instances of non-compliance at the individual taxpayer level, collecting data on the overall state of the tax system, gathering intelligence, educating taxpayers, and pinpointing areas of the law that necessitate clarification (OECD, 2006).

Ministry of Revenue Eastern Addis Ababa Revenue office tax auditors were requested to share their views on the significance of tax audit practice in their tax office. The responses provided by the tax auditors are presented in table 4.3. Out of the total 65 respondents, the majority of 35 (53.80%) stated that the purpose is "to increase government revenue", 13 (20%) mentioned "detecting tax evasion and avoidance", 9 (13.80%) highlighted "to increase compliance level of

taxpayers", 5 (7.8%) pointed out "Creating deterrence effect on non-compliance", and the remaining 3 (4.6%) respondents indicated "to train the taxpayers".

The study revealed that in revenue office, tax audits primarily focus on boosting government revenue, uncovering tax evasion and avoidance. Unfortunately, there is a lack of emphasis on enhancing taxpayer compliance, deterring non-compliance, and educating taxpayers on tax matters. This suggests that the main objective of tax audits is to maximize government revenue rather than promoting tax compliance among taxpayers.

Based on an interview conducted with tax officials, the main objective of a tax audit is to increase government revenue and identify and discourage non-compliance. The results of the audit can also provide insights into the overall effectiveness of the tax system. In terms of international best practices, a recent study contradicted a previous study conducted by the OECD in 2006. The earlier study claimed that the primary purpose of tax audits in developed countries was to encourage voluntary compliance and detect non-compliance. However, in developing countries like Ethiopia, the primary focus of tax audits is to generate additional revenue for the government. This disparity can be attributed to differences in economic status, technology, and the capacity of tax administrations in these countries.

4.5 Types of tax audit techniques during audit?

Table 4.4 types of audit technique

What types of audit techniques used at branch office to check accuracy of tax return?	Freq	%ge
Review financial statement and return.	55	85%
Examination of information from third part	30	46%
Examination of tax payers' record and documents	53	82%

Physical check of transaction like vouching and fixed asset.	22	34%
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Compiled from questionnaire survey (2024)

According to the OECD (2006), the tax auditor will employ various techniques to examine the books and records associated with a tax return. These techniques will differ depending on the customer and the specific tax regulations in question. In general, the auditor will adhere to several key principles. Initially, an analytical review of the financial statements and filed returns is typically conducted during the preliminary stages of the audit. Ratios, such as gross profit and inventory turnover ratios, are utilized to assess the accuracy of the taxpayer/registrant's reported sales, cost of sales, or ending inventory. Any unusual discrepancies are identified and addressed during the interview with the taxpayer/registrant, and additional audit procedures are developed if necessary. Auditors are encouraged to adopt an investigative approach in their audits, which involves gathering information through observation, discussions, and documents or records obtained from the taxpayer/registrant or other sources. This approach necessitates the exercise of judgment, imagination, and the use of information beyond the accounting records to effectively carry out the audit.

Records examination is a primary method for detecting false accounting, which involves reviewing books and documents at the taxpayer's office, conducting counterpart examinations, and examining savings and deposit accounts. According to the survey, 85% of participants evaluate tax return accuracy by reviewing financial statements. Additionally, 82% verify this by examining taxpayers' records and documents, 34% perform physical checks on transactions like vouching and fixed assets. The survey also revealed that 30.76% of respondents use information from third parties to assess taxpayers' returns, especially when bookkeeping is not provided or a more investigative approach is necessary. However, challenges arise in obtaining data from third-party sources and conducting physical transaction checks due to varying levels of auditor capability. This poses a challenge for the MOR eastern Addis Ababa branch to ensure the completeness, accuracy, credibility, and validity of audit techniques. Since taxpayer operations, bookkeeping adequacy, and auditor capabilities differ, the decision on the type of tests to be

conducted will depend on the auditor's approach. Therefore, in analyzing taxpayers' financial statements to identify key tax risks and design appropriate audit procedures, auditors must consider how taxpayers may have developed and presented financial statements to minimize tax exposure. Professional skepticism is crucial to prevent potential manipulation of financial statements by taxpayers to understate taxable income.

4.6 Types of tax Audit Performed

Tax audits may differ in their extent and the intensity with which they are carried out. The type of audits performed should align with the risks to be mitigated and the desired audit coverage of the taxpayer base. A surplus of narrowly targeted spot audits can offer extensive audit coverage but may compromise audit quality, tax revenue, and the ability to effectively identify taxpayer noncompliance. Conversely, an abundance of thorough examinations in audit activities may decrease the total number of audits conducted, potentially resulting in a reduced overall deterrent effect (OECD, 2006).

According to the research conducted by OECD in 2006, MOR in 2019, and Biber in 2010, various types of tax audits are conducted in a function-based administration. These include desk audits or verifications, field audits, registration checks, advisory audits, refund audits, issue-oriented audits, comprehensive or full audits, and fraud investigations. In light of this, tax auditors at the Eastern Addis Ababa Revenue office were requested to provide information on the most commonly practiced type of audit at the Ministry of Revenue Eastern Addis Ababa Small Tax Payers Branch office.

Table 4.5 Tax Auditors response on types of tax audit practiced in Eastern Addis Ababa Small Taxpayers Branch office.

Item	Strongly disagree		Disagree		Undecided		Agree		Strongly Agree	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Desk Audit	1	2%	5	8%	2	3%	44	68%	13	20%

Comprehensive Audit	-	-	-	-	-	-	-	-	65	100%
Investigation/special/Audit	17	26%	37	57%	3	5%	5	8%	3	5%
Refund Audit	0	0	4	6%	6	9%	43	66%	12	18%
Follow up Audit	28	43%	37	57%	-	-	-	-	-	-
Deregistration Audit	46	71%	19	29%	-	-	-	-	-	-
Registration check	34	52%	31	48%	-	-	-	-	-	-

Source: Compiled from census questionnaires, (2024)

The MOR eastern Addis Ababa branch office carries out full audits, as shown in table 4.10, with 65/100% of respondents strongly agreeing. Desk audits are the second type of audit conducted in the revenue office, with 88% of respondents. Moreover, the Eastern Addis Ababa Revenue Office also conducts Refund Audits, with 84% of respondents agreeing or strongly agreeing. However, the majority of the 54 tax auditor respondents (83%) disagreed with the revenue office's approach to investigative audits, as these are typically carried out at the head office. Deregistration audits, follow-up audits, and registration checks are not conducted at the branch office, as evidenced by 100% of respondents disagreeing or strongly disagreeing.

The Ministry of Revenue's Eastern Addis Ababa Branch office conducts exhaustive comprehensive audits, desk audits, and refund audits. According to the survey results of tax auditors, follow-up audits, deregistration audits, and investigation audits are not conducted at the branch office.

Tax officials also mentioned that comprehensive audits are carried out when taxpayers are selected based on risk criteria to verify if they have filed and paid the appropriate tax returns in accordance with tax laws and accounting principles. In the Ministry of Revenue, comprehensive audits are also conducted to generate additional revenue for the government and ensure compliance among taxpayers selected based on risk criteria, as well as those needing to close or dispose of over 50% of their business, or sell more than 50% of their shares. Desk audits are

performed to assess key potential risk areas of non-compliance. This type of audit is recommended as it requires fewer resources than comprehensive audits and allows for a broader coverage of the taxpayer population. Investigation audits are mostly carried out at the Head office.

4.7 Tax Audit Selection Criteria

Table 4.6 Tax audit selection criteria of eastern Addis Ababa revenue office

Item	Strongly disagree		Disagree		Undecided		Agree		Strongly Agree	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Amount of annual sales declared by Tax payers.	-	-	3	5%	6	9%	30	46%	26	40%
Taxpayer's history associated with penalty and refund.	-	-	3	5%	4	6%	47	72%	11	17%
Taxpaying trends of the Tax payers.	3	4.62%	5	7.69%	2	3%	33	51%	22	34%
Presences of Taxpayers associated compliance risks.	-	-	3	4.61%	4	6.16%	31	47.69%	27	41.54%

Evasion and fraud related information on tax payer.	-	-	2	3%	-	0%	35	54%	28	43%
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Source: Compiled from census questionnaires, (2024)

The case selection methodology is the first essential component of a successful audit. To ensure that the audit program is fully consistent with the administration's compliance strategy and to establish the necessary audit trails to show why cases were and were not subject to audit, case selection using risk management techniques is required. This topic is discussed in more detail in the accompanying papers to this document. The second of these papers contains detailed case studies of some implemented case selection frameworks (OECD, 2006).

The goal of identifying compliance risks is to identify as thoroughly as possible the particular compliance risks that a financial authority needs to address in order to reduce the likelihood of oversights and facilitate subsequent in-depth analysis. The risk identification phase has two dimensions: the “source” and the “impact” of the risks. To understand what might cause a risk, it is important to identify its source (OECD, 2004).

However, tax administrations lack the necessary resources to carry out a comprehensive cross-audit of all invoices or transactions or an in-depth on-site audit of each taxpayer's activities. With few resources available and large numbers of taxpayers to manage, particularly in small and medium-sized enterprises, the tax administration must plan the audit program to allocate audit resources on a risk-based basis to maximize compliance and revenue objectives (OECD, 2004).

Due to a lack of resources, tax administrations are unable to audit the activities of every taxpayer, let alone comprehensively audit all invoices and transactions. To maximize compliance and revenue objectives, the tax administration must design the audit program to allocate audit resources based on risk, given the limited resources and large number of taxpayers to manage, particularly in small and medium-sized enterprises (OECD, 2004).

Therefore, the case selection methodology is crucial for a successful audit. Different selection strategies may apply for each tax type. It could be determined by the type of industry or by the tax amounts reported (Barreca & Ramachandran, 2004).

Tax auditors from the MOR Eastern Addis Ababa branch were also interviewed about this and their opinion on the auditor selection process and the tax office's standards. The table above shows the tax auditors' responses and the tax audit selection criteria used by the branch.

The audit selection criteria used by the tax office are listed in Table 4.6 above. The majority of tax auditors, 56 (86%), said they agreed or strongly agreed with the level of annual sales recorded by taxpayers. However, 6 (9%) respondents said they were neutral, while 3 (5%) respondents said they disagreed or strongly disagreed.

Most respondents - 58 and 89%, respectively - agreed that the taxpayer's background should be taken into account or fully considered when selecting candidates for tax audits. Only 4 (6%) respondents were neutral and the remaining 3 (5%) disagreed or strongly disagreed with the level of annual sales reported by taxpayers.

Regarding the tax payment trend, majority of 55 (85%) of the respondents agreed or strongly agreed, 8 (12%) said they disagreed or strongly disagreed and the remaining 2 (3%) seemed to be neutral. The respondents - 58 or 89.23% – responded that they agreed or strongly agreed that taxpayers pose a compliance risk. 6.16% were neutral while the remaining three or 4.61% disagreed.

The overwhelming majority of respondents - 63 and 97% respectively - said they agreed or strongly agreed with information about taxpayers related to tax evasion and fraud; only two or 3% said they disagreed or strongly disagreed with this statement.

In conclusion, the majority of tax auditors concurred with the branch office's selection criteria for tax audits, which include: tax evasion and fraud; the existence of risk associated with the taxpayer; the taxpayer's past history of penalties and refunds; the amount of sales reported by the taxpayers each year; and the taxpayers' tax-paying patterns.

According to the tax officials' interviews, "the audit selection method is based on compliance approach, which is based on compliance risk management." This was another finding from the interviews regarding the audit selection criteria. Under the direction of the deputy manager of tax affairs at the branch office, the committee is composed of representatives from the risk selection management team as well as the departments of tax assessment, tax audit, customer service, and tax law enforcement. Based on the Head Office Tax Audit risk selection criteria manual and the current state of the branch office practices, the branch uses about twelve risk selection criteria. The taxpayer's data, which included the taxpayer's annual sales, business type, compliance history, penalty record, tax evasion and avoidance record, tax filing history, tax refund history, zero and lost declaration history, etc., accounted for about 80% of the information used in the audit selections. Twenty percent of the information gathered comes from tax intelligence and third-party data, according to the audit selection handbook. However, because audit selection is not entirely enabled by tax automation, it is difficult to apply the audit risk selection criterion. After the risk selection team has gathered the necessary information, it is also in charge of assigning files, based on the risk level of each file, to the tax audit and assessment departments for audit. It takes a lot of time to complete this process.

According to Barreca and Ramachandran (2004), audit selection strategies vary from simple random selection to more complex rule-based selection, sophisticated statistical techniques and data mining methods. Data mining and statistical analysis, automated and rule-based risk assessment systems, auditor screening or case review, and random case selection are common methods for selecting cases. The results of the new study are therefore at odds with the approaches identified by Barreca and Ramachandran (2004) as risk selection was not fully supported by SIGTAS tax automation.

4.8 Tax Auditors Competency and independence

Competency and independence of tax auditors in the MOR Eastern Addis Ababa Revenue Office are shown in Table 4.7.

Item	Strongly disagree		Disagree		Undecided		Agree		Strongly Agree	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
All tax auditors have good understanding and Knowledge on Tax laws, directives and manuals.	19	29.1	26	40	4	6.2	12	18.5	4	6.2
All tax auditors have Experience and capacity on Tax audit functions.	14	21.5	25	38.5	2	3.1	21	32.3	3	4.6
Tax Auditors have positive Attitude towards Tax payers.	6	9.2	18	27.8	6	9.2	21	32.3	14	21.5
There is strong team-work and working in collaboration among tax auditors.	4	6.2	6	9.2	5	7.7	25	38.5	25	38.5

Branch office give continued training to tax auditors to enhance their skill.	27	41.5	27	41.5	4	6.2	4	6.2	3	4.6
Tax auditors undertake their auditing job independently without any external pressure.	30	46.15	2	3.1	8	12.3	6	9.2	19	29.23
Management will respect the independence of tax auditors.	28	43.1	12	18.5	2	3.1	3	4.6	20	30.7
Management will provide all the necessary support for the audit activity.	15	23.1	12	18.4 6	3	4.6	10	15.38	25	38.5

Source: Compiled from census questionnaires, (2024)

According to the OECD (2006), tax offices typically use practice and experience as well as an analysis of the measures required to complete certain audit tasks to determine the required competencies of tax auditors. They were often based on the idea that auditors were generalists who could later specialize in the needs of the organization.

In addition to their primary responsibility to detect and prevent violations, tax auditors are often required to interpret complex tax laws and thoroughly examine taxpayers' books and records. Since tax auditors perform a variety of tasks, it is necessary to recruit and retain qualified tax auditors with auditing skills, technical understanding and tacit knowledge (Isa & Pope, 2011). In addition, the compliance behavior of corporate taxpayers can be influenced by the attitude of tax auditors during the audit process. The interactions between tax auditors and taxpayers during an

audit can impact taxpayers' future compliance practices. For example, taxpayers may be more inclined to comply voluntarily if they are treated respectfully during the audit.

The individual employee, their direct supervisor and/or the local management team are usually the ones who have responsibility and accountability for the development of tax auditors, audit managers and audit supervisors. Organizational structure appears to have an impact on accountability and responsibility. Together with tax audit and training departments, human resources departments (where applicable) often share responsibility and/or make important contributions to this process OECD (2006).

The tax audit policy and strategy will establish the concept that tax audit can be a strong and effective tool to help taxpayers understand their tax/customs obligations and can help taxpayers put systems in place to ensure the correct tax assessment generate correct time. Develop the skills of MOR staff: The tax audit policy and strategy will focus on developing the professionalism, integrity and competence of MOR's tax auditors to ensure the successful completion of high quality tax audits.

Regarding tax auditors' understanding and knowledge of tax regulations and instructions, 45 respondents (69.1%) indicated that they disagreed or strongly disagreed with the information listed in Table 4.11 above. However, 4 (6.2%) respondents remained neutral; whereas 16 (24.7%) respondents indicated that they agreed or strongly agreed.

The majority of respondents - 39 or 60% - said they disagreed or strongly disagreed, followed by 24 or 36.9% who agreed or strongly agreed, and the rest 2 or 3.1%, those who were neutral answered the question: "All tax auditors have experience and competence in tax audit functions."

On the other hand, the majority of respondents - 35 or 53.8% - answered that they agreed or strongly agreed with the statement, while 24 respondents, or 37%, said they disagreed or strongly disagreed, and the remaining six respondents, or 9.2%, seemed indifferent.

Furthermore, regarding teamwork and collaboration between tax auditors, the majority of respondents – 53 (77%) – answered that they agreed or strongly agreed, while the remaining 5 (7.7%) were unsure how to express their opinion. Only 10 (15.4%) respondents disagreed or strongly disagree.

Presumably, when asked if "Branch office give continued training to tax auditors to enhance their skill," the vast majority of respondents 54, or 83% said they disagreed or strongly disagreed, while only a small percentage 7, or 10.8% said they agreed or strongly agreed, and the remaining four, or 6.2%, said they were unsure.

In response to the question, "Tax auditors undertake their auditing job independently without any external pressure," the majority of respondents 49.25 percent said they disagreed or strongly followed by 38.43%, who said they agreed or strongly agreed, and the remaining 12.31 percent, who said they were indifferent.

When asked management would respect the independence of tax auditors, the majority of respondents or 50.8% said they disagreed or strongly disagreed, followed by 46.4%, who said they agreed or strongly agreed, and the remaining 2 respondents, or 3% who said they were neutral.

About the issue, "Management will provide all necessary support for the audit activity," the majority of respondents or 53.88% said they agreed or strongly agreed, followed by, 41.56%, respondents who disagreed or strongly disagreed, and two respondents, or 4.6%, who said they were neutral.

In general, the majority of respondents disagreed with the branch's understanding, expertise, experience and training of tax auditors in terms of their independence, competence and management support.

In addition, “there is a lack of qualifications and adequacy in the tax auditor staff in the branches,” said the summarized response from the tax officials interviewed regarding the competency and capacity of the tax auditors. Even if the tax firm employs young graduates with a bachelor's degree in business-related subjects such as accounting and finance, due to the high turnover of managers, there are problems in exchanging experience in daily auditing work in the tax auditor's workplace and knowledge. Furthermore, there is an imbalance between the number of taxpayers and the number of tax auditors in the industry. The tax audit department has a very specific organization. This is also supported by the interview with the team leader and owner of the tax audit process, who stated that the office was struggling with inexperienced and understaffed auditors.

Consequently, an inefficient audit program is the result of an insufficient number of tax auditors. It is possible that the required standards of audit quality, audit coverage and additional revenue collection may not be met. Because of their heavy workloads, tax auditors may miss opportunities or fail to identify compliance issues. Because the IRS's training program focuses primarily on tax laws and principles, it is challenging to receive specific, case-based tax audit training and post-training assessment from highly qualified trainers over an extended period of time. As a result, the system failed to close the skills gap.

This finding was consistent with tax auditors' responses to the questionnaires in Table 4.12 above and with the survey of tax officials, which indicated that there are deficiencies in tax auditors' understanding, expertise and access to branch training; there is an imbalance between the number of taxpayers and tax auditors in the industry.

In international practice, auditors are generalists who can later develop into specialists to meet the needs of the organization. And tax auditors also need to hire and retain competent tax auditors with technical knowledge, audit skills and implicit knowledge. The study results are

contradictory to (OECD 2006) and (Isa & Pope, 2011) as tax auditors in East Addis Ababa region do not have competent and developed technical skills and tacit knowledge.

4.9 Adequacy of Audit Resources

The following table demonstrated auditors' perception on the adequacy of audit resources in the revenue office.

Table 4.8 shows Adequacy of audit resources at the MOR in Eastern of Addis Ababa Branch office.

Item	Strongly disagree		Disagree		Undecided		Agree		Strongly Agree	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
There were well organized structure and suitable office for Tax audit functions.	5	8%	16	25%	6	9%	29	45%	9	14%
Tax audit has enough human resources to perform audits on all taxpayers.	20	31%	33	51%	5	8%	7	11%	-	-
There are enough material and equipment required for tax audit program.	9	14%	14	22%	7	11%	21	32%	14	22%

Required budget for Tax audit was sufficiently allotted every year.	15	23%	24	37%	2	3%	15	23%	9	14%
Appropriate information technology required for tax audit is connected from main server.	5	8%	9	14%	3	5%	36	55%	12	18%

Source: Compiled from census questionnaire 2024 and own computation.

Tax authorities typically have a limited amount of resources to handle the day-to-day business of financial administration. Given the many tasks that need to be completed and the inevitable decisions that need to be made about priorities, a process is required to determine how to allocate these resources. In some Member States, the tax authorities have relatively limited discretion in allocating human resources across the different areas of work, while in others; management is given wide discretion in allocating resources. Regardless of how the overall budget of resources for the audit activity is assembled, a key issue for the audit function is how these resources are distributed among the different segments of taxpayers. Determining how best to allocate resources is a key element of a financial authority's strategy to improve compliance and is discussed in the following section (OECD, 2006).

Given the relatively large human resources available for audit work and the important role that audits can play, audits are a key element of a tax authority's overall strategy to improve compliance. For this reason alone, the conduct of audit activities warrants a high level of planning, monitoring and evaluation to ensure that they optimally contribute to the Treasury's goal of improving overall compliance with the law. In order to make the best possible use of the resources intended for audit work in accordance with the strategy, a clear and efficient operational management structure is also required. The following paragraphs illustrate elements of good practice specific to audit team management (OECD, 2006).

Table 4.9 above demonstrates the adequacy of audit resources in the revenue office. With regard to structure and suitable office for Tax audit functions, 37 (58%) of respondents responded agree or strongly agree. However, 21(32%) of the respondents answered disagree or strongly disagree and the remaining 6(9%) respondents responded that they were neutral.

Regarding the suitability of tax auditors to conduct audits on all taxpayers, a majority of 53 (81.6%) respondents disagreed or strongly disagreed, 7 (10.8%) indicated that they agreed or strongly agreed, and the remaining 5 (7.7%) appeared to be neutral.

Regarding the provision materials and office equipment required for tax audit practice, 35 (53.8%) of the respondents mostly agreed or strongly agreed, 23 (35.3%) disagreed or strongly disagreed and the remaining 7 (10.8%) respondents seemed to agree that they were indifferent.

However, regarding the budget required for tax audit in each year, 39 (60%) of the respondents disagreed or strongly disagreed, 24 (36.9%) agreed or strongly agreed and the remaining 2 (3rd .1%) of respondents disagreed and seemed indifferent.

Finally, 48 (73.9%) of the respondents answered agree or strongly agree regarding the relevant information technology required for tax audit and connected from the main server, while 1 (22%) of the respondents did was disagree or strongly disagree and the rest (8%) were indifferent to expressing their opinion.

Overall, the respondents agreed on the suitability of the office, the availability of the office equipment and the connection of the SIGTAS system to the main server in the MOR data center. However, the respondents disagreed about the appropriateness of the tax auditors and the allocation of resources for tax audit activities in the tax office such as training. And the tax officials also agree with the idea of the above-mentioned tax auditor.

4.10 Tax auditors' responses on Effectiveness of Tax Audit

Table 4.9 Effectiveness of tax Audit in Ministry of Revenue: Eastern Addis Ababa branch office.

Item	Strongly disagree		Disagree		Undecided		Agree		Strongly Agree	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
The tax audit effort has increased government revenue in the branch.	11	17	6	9.2	4	6.15	20	30.8	24	37
Tax audit has minimized cost of revenue collection in the branch.	20	31	15	23	10	15.4	11	16.9	9	14
The tax audit effort has enhanced the tax compliance behavior of tax payers in the branch.	9	14	10	15	14	21.53	17	26	15	23

Source: Compiled from census questionnaires, (2024)

In order to establish reliable performance indicators for audit staff, it is important to understand why tax audits are carried out. The main purpose of tax audits is to improve taxpayers' voluntary compliance. This will be achieved by reminding taxpayers of the risks of non-compliance and by signaling to the general public that serious breaches of tax law will be detected and dealt with appropriately. Audit work improves taxpayer compliance when audit clients view auditors as a

competent entity capable of uncovering their tax plans and issuing fair tax assessments within the framework of tax legislation. In addition, the national audit plan should consider a significant portion of the taxpayer register that is considered high risk in order to achieve the required compliance levels among taxpayers (MOR, 2019).

Measuring effectiveness is best done by using a range of indicators for both outputs and results, as no single reliable measure can capture every aspect of audit effectiveness. These indicators often relate to the structures in which audit work and other compliance requirements are carried out. In all systems, it is difficult to uncover the causal chains that link a particular activity to an end effect. It is particularly difficult to determine whether compliance has improved due to audit activities or other causal influences (OECD, 2006).

Adediran et al., 2013) examined the impact of tax audits and investigations on revenue generation in Nigeria. The findings are that tax audits and investigations can increase the government's revenue base and also curb tax evasion in the country. Additionally, (Harelimana, 2018), the tax audit of revenue collection in Rwanda was examined. The study found that tax audit does indeed impact revenue collection as the t-tests show that the correlation between pre-audit and post-audit taxes is significant. This clearly shows that tax audit increases revenue collection. This essentially means that the more tax audits that are conducted, the more revenue is generated. (Mebratu, 2016), a study titled "Impact of Tax Audit on Improving Taxpayers Compliance" was conducted to examine the impact of tax audits on tax compliance in Ethiopia. The study found that there is a strong relationship between the likelihood of audit detection and the level of tax compliance. The regression result also shows that there is a strong relationship between the number of files checked and the degree of regression of the tax compliance coefficient.

From the data presented in Table 4.9 it can be observed that the tax audit efforts have resulted in an increase in government revenue within the industry. A majority of respondents consisting of 44 people (67.69%) agreed or strongly agreed with this statement; In contrast, 17 respondents

(26.16%) disagreed or strongly disagreed, while the remaining 6 people (6.15%) remained neutral in their answer.

The industry did not experience any reduction in revenue collection costs due to the conduct of tax audits. A significant portion of respondents, 35 (53.76%), disagreed or strongly disagreed with this statement. On the other hand, 20 (30.76%) of the respondents said they agreed or strongly agreed with the statement while the remaining 10 (15.38%) seemed to be neutral.

The tax audit initiative has ultimately improved tax compliance among taxpayers in the industry. A majority of 32 respondents (49.24%) agreed or strongly agreed with the statement while 19 respondents (29.22%) disagreed or strongly disagreed. The remaining 14 respondents (21.54%) appeared to be neutral.

As an interview with tax officials, the audit performance assessment attempts to consider the following: audit quality, audit yield and audit coverage. The verification process by an independent body within the tax authority can be used to validate the quality of the audits carried out by the tax audit teams. For example, audit quality can be measured by the proportion of appeals completed in favor of the ministry. If the taxpayer has objected to multiple issues within the context of a particular audit engagement, as in the case of a comprehensive audit, then the measure of audit quality would be the proportion of the audit value that was adjusted following the objection. Audit Yield views auditing as a means of generating revenue. This assesses the auditor's ability to generate revenue through the audit. Although this is not the primary reason for tax audits, close monitoring of revenue generated directly from audits ensures that auditors plan their audits to generate additional tax revenue. An audit program based on sound risk assessment is expected to guarantee high tax returns. The determination of the scorecard depends on the potential revenue return (projected tax revenue) for a particular sector/taxpayer and the growth trends in the economy.

In general, the effectiveness of the tax audit in the MOR East Addis Ababa branch is measured by taxpayers' compliance level (that is, taxpayers' post-audit compliance behavior). In addition, the effectiveness of the audit is measured by the audit coverage, i.e. H. the proportion of the

taxpayer register that is audited during the audit (fiscal year and month) and the other indicator of audit efficiency is the audit result, d This means that if the taxpayer has appealed a number of issues within the framework of a specific audit engagement , as in the case of a comprehensive audit, the measure of audit quality is the proportion of the audit score that is adjusted after the appeal.

The current study result has similarities with previous studies by (Adediran et al., 2013) and (Harelimana, 2018). The results of both studies agree that government revenue increases as the proportion of files examined increases. And this paper result is also comparable to (Mebratu, 2016) and (OECD 2006) for the reasons that both studies agree with the statement; Tax audit efforts have improved taxpayers' tax compliance behavior.

4.11 Observed Tax Administration Challenges in MOR astern Addis Ababa branch office.

Figure 4.15 above reveals the major challenges of tax audit practice in Ministry of Revenue Eastern Addis Ababa Branch office.

Table 4.10 Tax audit challenges in Revenue office.

ITEM	Strongly disagree		Disagree		Undecided		Agree		Strongly Agree	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
In adequacy of resources and facilities for tax auditors.	25	38.46%	11	17.00%	10	15.38%	10	15.38%	9	13.80%
Low capacity and efficiency of tax	17	26%	11	17%	2	3%	18	28%	17	26%

auditors.										
Low understanding of tax payers on related rules and regulation.	7	11%	13	20%	21	32%	21	32%	3	5%
Poor tax paying culture of tax payers.	4	6.15%	7	10.77%	16	24.62%	15	23%	23	35%
Tax evasion and avoidance practice by tax payers.	14	22%	10	15%	5	8%	23	35%	13	20%

Source: Compiled from census questionnaires, (2024)

Gurama & Mansor 2015) examined the problem of tax administration and internal revenue of Gombe State Board in Nigeria and identified problems of tax administration such as poor staffing, lack of facilities, poor records and poor conducive environment. And the results also show that insufficient public awareness, lack of training, poor working conditions, poor pay and lack of motivational incentives are among the problems that lead to low tax revenue. According to a study by (Mihret, 2011), the tax audit program remains undeveloped and few tax audit activities aimed at applying specific risks at the federal level are carried out. The study also shows low audit coverage and lack of compliance risks based on audit case selection strategy. On the other hand, the research conducted by (Mihret, 2011) and (Samuel, 2020) revealed that there was a lack of audit resources, especially among tax auditors, and a shortage of competent

and experienced tax auditors as well as incompetent auditors to combat tax evasion and tax avoidance.

According to the respondents, majority (58.46%) answered poor taxpayer culture of taxpayers, (55%) answered tax evasion and avoidance, (54%) said tax auditors had low capacity, (37%) responded to taxpayers' poor understanding of relevant rules and regulations. The main problems of tax auditing in the tax office include the remaining (29%) of insufficient resources and opportunities for tax auditors. In summary, auditors at the East Addis Ababa Branch of the Ministry of Finance identified many important tax audit issues, as shown in Table 4.10 above. These challenges result in poor tax collection, low taxpayer compliance, high compliance and administrative costs, and inefficient and ineffective tax audit practices.

Tax officials highlighted various challenges in branch tax audits, which can be divided into three main areas. The first area concerns internal problems within the tax office, such as: Examples include weak tax administration, service delivery problems, skills gaps among tax auditors, poor enforcement of tax laws, and unscientific selection of underwriting and limited awareness programs. The second challenge concerns the behavior and tax habits of taxpayers when faced with problems such as serious invoicing problems, tax evasion and tax avoidance. The third challenge is the existence of a shadow or underground economy, which makes it difficult for the tax office to level the playing field for legal taxpayers by monitoring informal trading activities in Ethiopia, particularly in Addis Ababa.

Despite numerous complaints from taxpayers, the tax office has not yet implemented any significant changes in this regard. These three challenges have a collective impact on tax administration as a whole and on the practice of tax audits. During the interview, tax officials emphasized the importance of the appearance and ethical behavior of tax auditors in the context of corruption. They found that most tax auditors and tax officers diligently follow the Audit Manual and Code of Conduct, ensuring that they adequately discharge their duties when dealing with taxpayers. Some tax auditors consciously or unconsciously have a high tolerance for

corruption. Examples include employees engaging in illegal activities such as: B. Negotiating with taxpayers for undue advantages in audits, monthly returns, clearances, intelligence operations, cash controls, release times and file selection for audits in order to waive or reduce the taxpayer's tax burden and quickly enrich themselves. However, the organization has established an ethics department that conducts awareness programs on corruption-related issues and requires tax employees and officials to disclose their assets and real estate every two years. In addition, the Ethics Department should obtain solid evidence of corruption among tax employees/auditors; it will take various actions in accordance with the organization's administrative policies that will result in termination and dismissal of these employees. Tax administrations face a variety of daunting challenges in every country. In this study on the common tax audit challenges of the tax office, the results of the study showed that poor tax culture, tax evasion and avoidance, low capacity of tax auditors, ethical problems of tax auditors, and network and power problems were among the major challenges of tax administration in the small branch of the Ministry of Finance in the east of Addis Ababa.

The findings of the latest study are consistent with previous research conducted in the Gombe State Board of Internal Revenue in Nigeria and highlight issues such as inadequate staffing, dysfunctional systems, outdated legal frameworks, lack of essential infrastructure to increase revenue and manual tax collection processes are prone to leaks. And there are also similarities with previous studies by (Mihret, 2011) and (Samuel, 2020) with the issue of scarcity of audit resources, especially tax auditors and the lack of competent and experienced tax auditors as well as incompetent auditors to combat tax evasion and avoidance. All studies share commonalities as they focus on African countries that face similar challenges in tax administration and auditing.

In general, the results and findings of the in-depth interview provide a detailed explanation of tax audit practice and its challenges in the area under investigation. Most results are consistent with and reinforce tax auditor perceptions and responses found in the survey data. Furthermore, the

interview results compensate for the limitations of the questionnaires in answering the “why” and “what” questions of the research, thereby providing a comprehensive understanding.

CHAPTER FIVE

5. C ONCLUSION AND RECOMMANDATION

5.1 introduction

In the previous section, the results and discourse of the research were presented. This section presents the conclusions and recommendations based on the results of the study. The chapter is divided into two parts: the first part focuses on conclusions, while the second part offers recommendations as possible solutions to the problems identified in the study.

5.2 Conclusion

The purpose of this study was to examine the tax audit procedures and difficulties faced by the MOR East Addis Ababa small taxpayer's branch. The study objectives are summarized in the following paragraphs to provide a concise overview of the research findings.

Each auditor's PC has a hard copy and paper copy of the tax audit manual for daily audit reference, which acts as a guide for auditors when auditing taxpayers. This outlines the steps that need to be taken. It offers a structure for organizing, getting ready for, carrying out, and reporting an audit. This is especially significant because it lays out an alternative, more expert method for conducting audits.

The role of tax audit in the tax office in eastern Addis Ababa is primarily to increase government revenue and detect tax evasion and avoidance. However, very little effort is made to increase taxpayer compliance levels, provide a deterrent effect on non-complaints and train taxpayers on tax issues. This result therefore implies that the role of tax audit is primarily to increase government revenue collections rather than to ensure tax compliance by taxpayers.

The branch uses various audit techniques, such as auditing financial statements, auditing taxpayer records, and auditing taxpayer documents. However, the choice of tests to be conducted depends on the auditor's approach and affects the quality of the books and records as well as the

auditors' abilities. Consequently, the auditor must consider how the taxpayer could have created and presented the financial statements in a way that lowers their tax burden in order to evaluate the taxpayer's financial statements, identify significant tax risks, and develop suitable audit procedures.

Comprehensive audits are carried out to generate additional revenue for the government and ensure compliance by taxpayers selected based on risk criteria, as well as taxpayers who are required to close or divest more than 50 percent of their business. Desk audits are conducted to examine key potential risk areas of non-compliance. In addition to comprehensive audit, desk audit, issue audit and other types of audit is recommended because it uses relatively fewer resources than comprehensive audits and allows for greater coverage of the taxpayer population. The investigative test is usually carried out at the headquarters.

Tax evasion and tax fraud, the risk associated with taxpayers, the taxpayer's history of penalties and refunds, the annual sales declared by taxpayers and the evolution of taxpayers' tax payments were the most important factors used in the selection of the branch was taken into account for tax audits. The audit selection method is based on the compliance approach, which is based on compliance risk management. The board consists of members of the risk selection management team as well as the tax assessment, tax audit, customer service and tax enforcement departments, which is headed by the branch's deputy head of tax affairs. The branch uses about twelve risk selection criteria, which are based on the risk selection criteria manual of the head office tax audit and the actual situation of the branch practices methods exercises. Approximately 80% of the information used in audit selection came from the taxpayer's data, which included the taxpayer's annual turnover, type of business, compliance history, penalty records, tax evasion and avoidance records, tax filing history and the taxes included refund history, zero and loss declaration history, etc. In addition, the risk selection committee is responsible for assigning files to the tax audit and assessment departments for review according to the risk level of each file after the risk selection team collects the necessary data. This process is time-consuming and ineffective. If some members are not present, there is a high chance that there will be delays and

delays in selecting files on time. This type of risk selection impacts audit quality and productivity in the office.

Variations in tax auditors' proficiency, especially with regard to their comprehension and familiarity with tax audit matters. Additionally, brought up was the problem of the branch's lack of ongoing, needs-based training. On a positive note, the study found good teamwork among the tax auditors in the branch, which enables an exchange of experiences. In addition, the number of taxpayers and tax auditors in the sector are out of balance. It is a very specific organization, the tax audit department. Inexperienced and understaffed examiners are a problem for the office.

In addition, in terms of resource availability, the investigation found that the office is suitable, the office equipment is available and the SIGTAS system is connected to the main server in the MOR data center. On the other hand, there is a lack of tax auditors and the budget for tax audit activities in the tax office, such as: Training.

The effectiveness of the tax audit in the MOR East Addis Ababa branch is measured by the audit coverage. This means that the proportion of the taxpayer registers that is audited during a certain period (fiscal/fiscal year and month), the other audit efficiency indicator is the audit output-it means the revenue generated as a result of the audit. The quality of the audit can also be measured based on the proportion of appeal proceedings completed in favor of the tax office. If the taxpayer has objected to multiple issues within the context of a particular audit engagement, as in the case of a comprehensive audit, then the measure of audit quality would be the proportion of the audit value that was adjusted following the objection. The study also found that the tax audit program of the MOR East Addis Ababa branch actually resulted in an increase in revenue collection. This essentially means that the more tax audits that are conducted, the more revenue is generated. And tax audits also increase taxpayer compliance.

The MOR eastern Addis Ababa small taxpayers' branch office is faces significant challenges with frequent tax audits. These challenges include a lack of tax compliance culture, issues with tax evasion and avoidance, limited capacity among tax auditors, ethical dilemmas faced by auditors and underground economy.

5.3 Recommendations

The following Recommendations are made based on the conclusion and findings of the study.

- The finding of the study shown that most of the time the role of tax audit in Eastern Addis Ababa Revenue office is primary done to increase government revenue, and detecting tax evasion and avoidance. However, very few efforts are exerted to increase compliance level of taxpayers, create deterrence effect on non-complaints and to train the taxpayers on tax issues. Therefore, the study results implied that the role of tax audit is primarily to increase government revenue collection rather than creating tax compliance on taxpayers.

The branch office is most of time focused revenue collection this decreases number of tax payers who pay their taxes on time honestly in long run. so the researcher recommended that the branch must focus on promote voluntary compliance and educating those who are not compliant.

- According to study result information from third-party and the physical inspection of transaction checks poses the biggest challenge for branch offices. However due to auditor's different levels of capability those examination techniques may not be conducted correspondingly this is a challenge for MOR eastern Addis Ababa to establish completeness, accuracy, credibility and validity of audit techniques. As the survey result since taxpayer's operations, adequacy of books and records and capabilities of auditors are different the decision regarding the type of tests to be undertaken will depend on auditor's approach. Hence in order to analyze the taxpayers' financial statements for the purpose of identification of key tax risks and design of appropriate audit procedures, it is necessary for the auditor to imagine how the taxpayer could have developed and presented the financial statements in a manner that reduces their tax exposure. Therefore, the researcher recommended the auditors must use all audit techniques according to audit cases and business behavior in order to reach final conclusion.

- Tax audits selection in MOR Eastern Addis Ababa small tax payers branch office is currently not fully guided by risk management principles. The criteria lack the full support of SIGTAS and rely heavily on the assessment of a committee made up of people from different departments. Therefore, it is recommended that the government invest in and review the risk-based audit program strategy. This allows the audit functionality of SIGTAS tax automation systems to be fully utilized for risk assessment, with the risk selection process carried out by the relevant department rather than a committee. In addition, tax audits should be guided by risk management principles to increase audit productivity and modernize the audit program.

- To address tax auditor skills gap, the tax authority is recommended to establish a training center that offers comprehensive and specialized tax audit programs. In addition, the tax office should increase the number of auditors in line with current industry needs. The office to facilitate knowledge sharing and reduce the skill gap. Lastly, it is crucial for the revenue office to allocate sufficient budget for tax audit plans and activities. Additionally the tax office increases both the quantity and quality of tax auditors by revising the current structure of tax audits in the branch office.

- The main difficulties faced by tax auditors during the tax audit process in MOR East Addis Ababa small taxpayers branch office were attributed to lack of tax culture, tax evasion and avoidance, limited capacity of tax auditors. Ethical questions among tax auditors as well as network and power problems. Consequently, it is essential for the tax office to address its internal challenges by improving the skills of its employees, introducing modern and efficient systems, and shaping the attitudes and ethical behavior of tax auditors through effective workforce attraction and retention strategies to minimize them Corruption in the

financial sector. In addition, the tax office should prioritize taxpayer awareness and education to promote voluntary compliance and reduce cases of tax evasion and avoidance. In addition, the tax office should establish robust tax law enforcement mechanisms to deter fraudulent taxpayers.

5.4 Areas of Future Study

In conclusion, it is recommended that future researchers interested in this area study tax audit practice and question the significance level of the variables using various inferential statistical data analysis methods in addition to descriptive analysis to gain a deeper understanding of the variable significance level and relationships.

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ADDIS ABABA UNIVERSITY
SCHOOL OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE SURVEY
QUESTIONNAIRE TO BE FILLED BY TAX AUDITORS AND TAX
OFFICIALS

Dear respondents;

This questionnaire has been prepared by masters of accounting and finance graduate student of the Addis Ababa University to conduct study for the partial fulfillment of master's degree entitled "Assessment of tax audit practice and its challenges: The case of ministry of revenue Eastern Addis Ababa small tax payers branch office.

The aim of the study is to asses' practice of tax audit and its challenges in the revenue office and to recommend the tax office to improve the tax audit practice and its challenges to enhance the revenue performance and compliance level of tax payers. The researcher wants to underline that the data collected are kept confidential and used for academic purpose. No respondents will be identified by his name. There for you are timely and genuinely response to appreciate, and has significant value for achievement of the study objective.

Your cooperation is greatly appreciated!

Further information, please contact the researcher:

Maruf Kedir

Marufkedir561@gmail.com

Appendix-I Survey questionnaire for tax auditors

Instruction: for each of the following questions, give your response by putting a tick mark (✓) in the appropriate box or filling the blank space provided.

Part-1 Back ground of information

1. Gender

Male

Female

2. Age

20-30 years 31-40years 41-50years above 50 years

3. Education level

Grade 10/12 Diploma Degree Master's degree Above

3. Field of study.

Accounting and Finance Economics Management Business administration Others

5. Current job.

Junior tax auditors' senior tax auditors'

Tax auditors

6. Work experience on your current position.

Less than 2 years

2-4 years 6-10 years

4-6 years Above 10 years

Part-2 Questionnaires related to factors for a successful tax audit assessment and its practice.

7. Do you have tax audit manual?

Yes No

8. If yes, what is the purpose of tax audit?

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9. What is the role of tax audit? (Multiple answers is possible)

Increase government tax revenue increase compliance level tax payers'

Creating deterrent effect on non-complaints Detecting tax evasion and avoidance

It trains tax payer's

10 Which type of audit techniques used at MOR eastern branch to check the accuracy of tax returns? (Multiple answers are possible)

Review of financial statements and returns

Examination of taxpayer's record such as books and documents

Physical checks of current transactions, vouchers, assets and other aspects

Please mark (√) in a box indicates your response from the following scales for each item bellow as:

Strongly disagree=1 Disagree=2 Neutral=3 Agree=4 strongly agree=5

NO	Items	Scale				
		1	2	3	4	5
I	What types of tax audit are you performed?					
9	Desk Audit					
10	Comprehensive Audit					
11	Investigation/special/Audit					
12	Refund Audit					
13	Follow up Audit					
14	Deregistration Audit					
II	Audit selection criteria in eastern Addis Ababa branch office.					
15	Amount of annual profit declared by tax payers.					
16	Tax payer's history associated penalty and refund.					
17	Tax paying trend of tax payers.					
18	Presence of tax payers associated compliance risks.					
19	Evasion and fraud related information on tax payer.					
III	Tax auditor's competency and independence.					

20	All tax auditors have good understanding and knowledge on tax laws, directives and manuals.					
21	All tax auditors have experience and capacity on tax audit functions.					
22	Tax auditors have positive attitude towards taxpayers.					
23	There is strong team-work and working in collaboration among tax auditors.					
24	Branch office gives continued training to tax auditors to enhance their skill.					
25	Tax auditors undertake their auditing job independently without any external pressure.					
26	Management will respect the independence of tax auditors.					
27	Management will provide all necessary support for the audit activity.					
IV	Adequacy of audit resource.					
28	There were well organized structure and suitable office for tax audit functions.					
29	Tax audit have enough human resources to perform audits on all taxpayers.					
30	There are enough material and equipment required for tax audit program.					
31	Required budget for tax audit was sufficiently allocated every year.					
32	Computers and appropriate digital technology required for tax audit are accessed at revenue office.					

V	Tax audit effectiveness.					
39	The tax audit effort has increased government revenue in the branch.					
40	The tax audit has minimized cost of revenue collection in the branch.					
41	The tax audit effort has enhanced the tax compliance behavior of the taxpayers in the branch.					
VI	Major challenges of tax audit practice.					
33	In adequacy of resources and facilities for tax auditors.					
34	Low capacity and efficiency of tax auditors.					
35	Low understanding of tax payers on related rules and regulation.					
36	Poor tax paying culture of tax payers.					
37	Tax evasion and avoidance practice by tax payers.					

38. Please offer any other comments and suggestions for the tax office in order to provide effective and efficient tax audit practice.

Thank you very much for your co-operation!!

Appendix II-Interview

Addis Ababa University School of business and economics Department of
Accounting and finance

Interview Question for tax officials

Background information's of the tax officials.

Gender	
Age	
Position	
Level of Education	
Work experience	

Part III: Main interview Question for tax employee and officials

1. What is the primary role of tax audit Practice in the branch office?
2. Which type of audit techniques used at MOR eastern branch office to check the accuracy of tax returns?
3. Which audit types are performed and which audit types are performed mostly? Why?
4. What are the audit selection methods and criteria's in the branch office?
5. How do you evaluate adequacy of audit resource in the branch office?
6. How do you examine the capacity and efficiency of tax auditors in the study area?
7. How do you evaluate the audit effectiveness /efficiency of the branch office?
8. What are the major challenges in tax audit department of branch office?
9. In your opinion, what has to be done to improve the tax audit practice and its challenges in the revenue office?

Thank you very much for your co-operation!!