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Accounting and Finance Program

Assessment of tax audit practice in Ethiopia
The case of Ministry of Revenue East Addis Ababa
Branch Office

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Assessment of Tax Audit Practice in Ethiopia
The Case of Ministry of Revenue East Addis Ababa Small Tax
Payers Branch Office

A Thesis is submitted to the College of Business and Economics Accounting and Finance Program presented in partial fulfilment of the requirements for the Degree of Masters in Accounting and Finance.

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ENDORSEMENT

This thesis has been submitted to Addis Ababa university, School of Graduate Studies for examination with my approval as a university advisor.

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Declaration

I have carried out independently a thesis on “Assessments of Tax Audit Practice in ministry of revenue east Addis Ababa small tax payers Branch Office” in partial fulfillment of the requirements of the MSC Degree in Accounting and Finance with the support of the advisor. This thesis is my own works that has not been presented for any degree or diploma program in this and any other institution, and that all source of materials used for the thesis have been duly acknowledged.

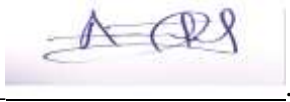
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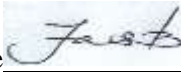
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Certificate

This is to certify that the thesis entitled “Assessment on tax Audit Practice in ministry of revenue: The case of Eastern Addis Ababa Small Taxpayers’ Branch Office”, submitted to Addis Ababa University for the award Degree of Masters’ of Accounting and Finance carried out by Huda Ali, under our guidance and supervision. Therefore, we here by declare that no part of this thesis has been submitted to any other university or institutions for the award of any degree or diploma.

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Abstract

The study's goal was to assess the Ministry of Revenue's tax audit practice: The Case of the Eastern Addis Ababa Small Taxpayers' Branch Office. Descriptive research design was adopted in the study. Using a combined research approach, information was gathered from all 80 tax auditors in order to meet the goal. Data was gathered via an in-depth interview and a questionnaire. Descriptive statistical analysis was employed by the researcher to examine the information gathered. This study uses a sample size of 80 tax auditors to examine the difficulties and efficacy of tax audits in a particular setting. The study sought to determine the standards by which tax audit cases are chosen, investigate the usage of tax automation, and evaluate the expertise of tax auditors. The results provide some important new insights. First off, most respondents questioned the competence of tax auditors, raising issues with the selection of suitable and knowledgeable officers, the effectiveness of the tax audit handbook, and the amount of training offered.. Second, although all respondents agreed that tax automation improved revenue collection and compliance, several expressed concerns about the current auditors' lack of training in using automation software. Furthermore, the participants emphasized obstacles including network malfunctions, problems with the quality of data, and opposition from auditors that impeded the effective execution of tax automation. Even though SIGTAS tax automation supports the audit selection process, the data entered into the system is not accurate or dependable enough to be used efficiently. Several recommendations are made in light of these findings, including strengthening tax auditor competency through extensive training programs, guaranteeing sufficient funding for tax audits, advancing the use of tax automation through technological support and training, and developing transparent and unambiguous standards for choosing tax audit cases. These recommendations aim to improve the effectiveness and efficiency of tax audits, enhance tax compliance, and increase revenue collection.

Key word-

Assessment of tax audit practice, Revenue Collection, Tax Compliance, Auditor Competency, Audit Resource Adequacy, SIGTAS, Audit Case Selection

List of acronyms

AAA	American accounting association
ASOSAI	Asian organization of Supreme audit institution
DRM	domestic resource mobilization.
ERCA	Ethiopian Customs and Revenue Authority
ECX	Ethiopian commodity exchange
GDP	Gross domestic product
HMRC	Her majesty`s revenue and customs
IMF	International monetary fund
INTOSAI	International organization of Supreme audit institution
IFMIS	Integrated financial management information system
MoR	Ministry of Revenue
OECD	Organization for economic and cooperation development.
SIGTAS	Standard integrated government tax administration system.
SAI	Supreme audit institution
TOT	Turn over tax
UNDP	United nations development programme
VAT	Value added tax

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CHAPTER ONE

1. Introduction

The purpose of this chapter is to inform the readers about the study area by providing broad information about the research topic. The chapter begins with the study's history, then moves on to its explanation of problems, overarching aims, relevance, and then its scope, limitations, and organizational structure.

1.1 Background of the Study

Ethiopia's extremely low tax income to GDP ratio indicates that the nation is still in the early stages of using taxes to mobilize domestic resources. Ethiopia's tax collection as a proportion of GDP is substantially lower than the norm for Sub-Saharan African nations, according to the World Bank (2022). In a similar vein, Ethiopia continues to have a poor tax effort, according to the African Development Bank (2021), which compares actual money collected to prospective revenue.

A nation's level of development is mostly dependent on the revenue it generates and the amount it invests in public infrastructure for the benefit of its people. The International Monetary Fund (2021) has observed that sufficient government revenue is necessary to finance public infrastructure investments, which are critical to the expansion and development of the economy.

No economy can grow if there is insufficient money for energy production, infrastructure development, and the provision of public utilities and services. The United Nations Development Program (2020) highlights that public services, energy supply, and infrastructure development are the main forces behind social and economic advancement.

In order to construct nations, taxes and tax systems are essential elements, and this is especially true for developing or transitional countries (Mckerchar and Evans, 2009).

Additionally, as the major goal of taxation is to increase government revenue so that it can pay for all of its spending on economic activity. International interest in enhancing developing nations' capacity to raise domestic money from various sources is expanding (Damme, 2008). The method through which nations raise domestic resources and use these cash to pay for goods and services for their citizens is known as domestic resource mobilization(DRM).. This comprises receipt of tax revenue, non-tax revenue, domestic

borrowing, and other domestic income sources; but, it need not entail the creation of new taxes or an increase in tax rates.

In terms of sustainability and dependability, DRM is the only dependable and long-term source of development financing for underdeveloped nations (Azubike, 2009). However, emerging nations have struggled to attract funding for investment from local sources.

Low tax revenues have been shown to be a barrier to spending programs in developing nations (Tanzi, 2000). In this sense, a number of academics concurred that a strong tax system is essential to achieving governmental goals. For instance, a competent tax system—which includes tax audit—offers the government the chance to raise additional funds necessary to meet its current commitments and plays a variety of functions in the process of a country's economic development.

The conduct of tax audit by audit staff for the appropriate verification of a selected taxpayer's whether he or she has been correctly declaring the tax liabilities includes a review of the taxpayer's systems, books of account, and other related information. Tax audit is a critical and significant component of the compliance activities of tax administration by means of properly using enforcing tax laws. It may involve conducting cross-checks between the taxpayer's records and those of the taxpayer's supplier or with other departments and agencies of the government as a source of information. The effectiveness and efficiency of this process must be ensured through proper procedures and the use of contemporary audit tools and techniques (OECD 2006).

To guarantee that taxpayers have estimated their tax payable in conformity with the most recent tax rules and regulations, tax audits examine taxpayers' company records and financial affairs (Isa & Pope, 2011). Al Zakari (1995) defined a tax audit as an examination of historical financial statements, other documentary evidence used to prepare current tax returns, and supporting working statements, followed by an audit report outlining the auditors' assessment of how closely the information in the tax return corresponds to the relevant tax laws.

Tax audits therefore have an impact on revenue collection since they encourage taxpayers' voluntary compliance, which raises income, and they assess the accuracy of returns to guarantee the proper taxes are paid. Additionally, it is simple to identify issues that require modification and declare tax liabilities.

Specifically, to discuss this issue in the context of Ethiopia (the effect of tax audit on revenue collection), in the past decade Ethiopia has made encouraging progress in mobilizing more revenues from domestic sources, particularly in tax revenue. According to GTP 10 year

strategic plan of ministry of revenue Tax collection was on 2003 E.C 50.82billion birr,2004 E.C 70.75billion birr2005E.C 84.41 birr 2006E.C106.80billion birr 2007 E.C 128.32 billion birr 2008 E.C144.35billion birr 2009.E.C160.18 billion birr2010E.C176.10 billion birr 2011E.C198.23 billion birr 2012 E.C 270billon .in general there is a total increment of birr 219.18 on average 21.9 billion birr or 18.7% increment . However, there is a challenge increasing the tax revenue proportionate GDP; Based on the 2020 data of the Organization of Economic Cooperation and Development (OECD), the tax-to-GDP ratio of Africa countries on average is 13% while it is 6.2% for Ethiopia which is 52% lower than the SSA countries average. While the economy has been growing at a remarkable rate, the slow growth in the tax to GDP ratio suggests the growth in tax collection is not commensurate with the economic growth perhaps indicating a huge untaxed potential /African Development Bank (2021)/

According Shumetie (2019), there are a number of reasons in Ethiopia which leads to revenue collection in danger position because of the improper tax audit. The reasons were highlighted by the author for improper tax audit was; case selection is not based on the availability of resource for tax audit, taxpayers were not co-operated to give their source documents, do not respect the tax law, lack of good awareness on tax, not happy while they are noticed to be audited and taxpayers are mostly unwilling to release vital records. Hence, this study add input on the practice of tax audit in the context of Ethiopia by selecting a case study of east Addis Ababa small tax payers branch office.

1.2. Statement of the problem

Since taxes are the primary source of income for the government, the relevant department or agency must make sure they are collected properly. For industrialized and developing countries to do this, it is crucial that their taxation systems are well-designed and managed in order to increase domestic tax revenue. The system should have been simple and transparent administrative procedures (Tanzi, 2000). The potential tax revenue in emerging and transitional nations has not been collected in an effective and equitable manner due to limited tax administration and audit programs. Furthermore, a poor tax administration could render the tax system unfair, subjecting compliant taxpayers to a greater and unjustified tax burden. As a result, those who pay their taxes on time also participate in the black market; to prevent this, tax audits are required.

Tax audit is an examination of whether a tax payer has correctly assessed and reported their tax liability and fulfilled their obligation .this examination can only be processed if it is

supported by a robust legal frame work ,otherwise it will be subjected to challenge .In this regard Article 28(1) of the federal tax administration proclamation 983 of 2016 provide the legal basis for audit activity in Ethiopia and can be said to be the foundation upon which tax audits are premised and conducted.(ministry of revenue, 2019).Thus, tax audit becomes a bridge that is believed to connect taxpayers with the tax authority. Additionally, it might close the knowledge gap by exposing tax evaders and educating others who lack basic tax knowledge. Therefore, the presence of competent tax audit structures inside a tax authority could ensure maximum revenue collection and enhanced public understanding of the existing tax regulations.

To ensure its efficacy, a tax audit should only be performed by highly skilled, informed, and committed auditors. However, a number of factors, such as a lack of institutional audit practices, a lack of clear political support for tax administration, a lack of adequately trained and compensated audit practitioners, illegal cooperation between taxpayers and auditors, and an inadequate legal and judicial environment, contribute to the lack of effective audit programs in many developing nations (OECD, 2021). These problems have a negative impact on revenue collection. Moreover, the IMF (2023) claims that these nations frequently make up for inadequate tax audits by enacting intricate policies like more stringent filing requirements and thorough cross-checking, which cause administrative challenges and raise taxpayer compliance costs. Accordingly, a plethora of research indicates that the absence of a tax-paying "culture" poses a serious obstacle to creating a steady stream of income, particularly in sub-Saharan Africa O., & Tagem, A. M. E. (2022).The main cause of this noncompliance with tax laws is the taxpayers' inability to submit and pay the required taxes.Since they force taxpayers to comply with their tax duties, tax audits are essential for revenue administration since they lower tax evasion. The OECD emphasizes how important tax audits are for improving revenue collection and guaranteeing compliance (OECD, 2017). Strong enforcement procedures are necessary since many people are reluctant to pay taxes voluntarily (Alm, 2019). Rather than depending on taxpayers' voluntary compliance, a mechanism ought to be built to automatically harvest taxes (Slemrod, 2018).

In order to combat both deliberate and unintentional tax evasion, it is necessary to reinforce the tax audit function and provide sufficient money to sustain it. In order to effectively combat evasion, the IMF emphasizes the significance of bolstering tax audit capacities (IMF, 2020). Improving compliance and guaranteeing consistent revenue growth need the implementation of efficient tax audits (World Bank, 2021).

The usefulness of tax audit practices for revenue contribution is a topic covered in several research. Mirera (2014) examines the impact of tax audits on revenue collection in Kenya. The study uses secondary data from 2010 to determine the amount of money collected, with variations based on the type of tax audit used. The findings indicate that tax audits have a significant impact on revenue collection, suggesting that conducting more tax audits leads to higher revenue generation.

Adeniyi (2020) conducted a study in Nigeria and found that tax audits have a significant impact on revenue collection. The study shows a correlation between the taxes collected before and after the audit, indicating that tax audits increase revenue collection.

Mutarindwa (2014) conducted a study in Rwanda specifically examining the relationship between financial statements audits and the growth of tax revenues. The findings indicate that tax audits have a significant impact on the tax revenues collected by the relevant tax authority.

Renyan conducted a study in Ethiopia titled "Impacts of Value-Added Tax Audit on Tax Revenue Performance: Evidence from the Amhara Region." The study identifies multiple challenges faced by tax authorities in Ethiopia, including the lack of a tax-paying culture, weak accountability and transparency, ineffective and inefficient audit practices, frequent changes to tax laws, and prevalence of tax evasion and avoidance.

Other studies, such as those by Gebeyehu (2008), Getaneh (2011), Samuel (2020), Netsanet (2014), Ayalew (2014), Abera (2016), and Mesfin, have also examined the effectiveness of tax audits. These studies focus on audit quality, auditee attributes, top management support, organizational settings, organizational independence, and the need for comprehensive changes in tax administration.

In conclusion, these studies collectively suggest a positive relationship between tax audits, government revenue, and tax compliance. They emphasize the importance of strengthening tax audit programs through appropriate measures and resources to improve revenue collection and enhance tax compliance. Tax administration should improve the public's perception of tax audit practices by implementing a successful full audit program, making resources available, practicing audit case selection, and providing tax auditors with a suitable and free work environment. These measures will enable tax auditors to investigate and prevent revenue loss, improve voluntary compliance, and maximize tax potential.

ministry of revenue has 12 branch offices all over the country. The tax payers of These branch offices are non-sole proprietors who expected to have well organized financial records and pay their taxes willingly. Tax payers branch office ranked as large, medium, and small according to their yearly transaction. Tax payers whose yearly transaction above 100 million birrs categorize as large. which is only one branch among the 12. medium branch office with the transaction between 100-15 million are 2 in number. the rest 9 small branch offices are below 15 million yearly transaction. though the well-organized ness of the tax payers is expected to be better in relation to sole proprietorship, the strengthens of the tax payers to have reliable financial statement and paying tax willingly being compliant will decrease according to their rank when we compare among themselves. it is obvious that tax audit mostly engaged to trace non-complaint tax payers who do not pay their tax innocently. Especially large tax payers office who have manageable size tax payers/ less than700/ expected to have most compliant tax payers. The studies made by Abera(2016) , the case of large tax payers office, confirm that the effective ness of tax audit has a positive effect on revenue collection. That means still there is a demand for tax audit even in large tax payers office which seems more loyal. what about the other branch offices who have huge and unmanageable size tax payers, between 5000- 12000, and less compliant in relation to that of the large tax payer`s one is still did not addressed sufficiently. including eastern Addis Ababa branch office

Even though there is no organized and scientific study starting from the new establishment of Ethiopian Ministry of Revenue / 2019/ , different documents of the Ministry such as periodical evaluation documents , monthly quarter and yearly reports of the Ministry boldly acknowledge that there is progressive achievement regarding tax audit effectiveness .But lack of sufficient audit resource, competent human resource, the application of automation for tax Audit process and the selection criteria are still the main problem of the tax audit process to be effective .

To the best of the researcher's knowledge starting from the newly establishment /2019/of the Ministry, most tax audit related studies fall short in giving due attention on the performance of tax audit program.

In order to achieve this, the researcher develops an interest in evaluating the tax audit procedures at the Ministry of Revenue's small taxpayer branch office in eastern Addis Ababa. which can be applicable to those 9 similar status MOR branch offices.

1.3 General objective

The main objective of this study is to assess tax audits practice in Ethiopia ministry of revenue by taking a case study of east Addis Ababa small tax payers' branch offices.

1.3.1. Specific objectives of the study

- ✓ To evaluate the sufficiency of resources for tax audits: to assess the amount of money, technology, and manpower allotted to the Ministry of Revenue's Eastern Addis Ababa Small Taxpayers Branch Office in order to determine whether it is adequate for carrying out tax audit operations.
- ✓ To assess the qualifications and expertise of tax auditors: To look into the credentials, education, and professional background of tax auditors employed by the Ministry of Revenue's Eastern Addis Ababa Small Taxpayers Branch Office, as well as how these things affect how well they perform audits.
- ✓ To assess the suitability of audit case selection strategies and procedures: To evaluate the efficacy and equity of the selection processes and criteria utilized in the Ministry of Revenue's Eastern Addis Ababa Small Taxpayers Branch Office for audit cases and audit procedures.
- ✓ To evaluate the efficacy and execution of tax automation for auditing: To determine the degree to which tax automation systems are used in the tax audit procedures at the Eastern Addis Ababa Small Taxpayers Branch Office of the Ministry of Revenue, as well as the effect they have on increasing audit accuracy and efficiency.

1.4. Significance of the Study

The study has different significances. In the first place, the the ministry of revenue Eastern Addis Ababa small Taxpayers Branch Office be aware of the existence Tax Audit performance, evaluating Tax Audit practice to make some adjustment in the procedure, strengthens and weakness of Tax Audit practice. Secondly, it may be helpful for the stake holders and Tax payers to have knowledge on tax audit. Finally, it is an initiation for those who are interested to conduct a detailed and comprehensive study regarding tax audit practice

1.5 Scope of the Study

The practice of tax audit in the Ethiopian Ministry of Revenue's Eastern Addis Ababa Small Taxpayers Branch Office was the main subject of the study. There are 470 employees overall, according to information the researcher obtained from the human resources department of the East Addis Ababa Small Taxpayers Branch Office in April 2023; of these, 80(70 auditors, 10 team leaders) are currently employed by the tax audit department. The study's target audience consisted of all tax auditors, team leaders, and owners of tax audit procedures who worked at the small taxpayers' branch office in east Addis Ababa. This is due to the necessity of speaking with subject matter specialists who are well-versed in the study's field and who have a strong relationship to tax audit operations in order to gather comprehensive primary data. Though tax audit practice can be affected by so many factors this study address only the main factors such as Tax audit resource, auditor capacity, audit case selection, and tax automation based on benchmarks from theories and empirical research. like Sarfo (2015) and Harelimana (2018), and periodical evaluation of the ministry of revenue. This research will be carried out in the Ministry of Revenue's East Addis Ababa Taxpayers Branch Office. The Ministry of Revenue was founded as a new entity in 2019 when the Ethiopian Revenue and Customs Authority was split off. The study primarily focuses on data from 2019 onwards to ensure the relevance and applicability of its conclusions for the branch office, while some data prior to 2019 are provided for context.

1.6 Limitation of the study

It is crucial to recognize the limitations of the study on the practice t of tax audits

.Among these restrictions are:.

There are insufficient secondary sources of information available from the branch office regarding the performance of tax audits, which could provide further details for the study. Nevertheless, since the researcher will take the appropriate safety measures, such as contacting higher officials to give the documents, triangulation of data source assess the Ministry websites, expert consultation regarding the data source from more experienced and knowledgeable branch office employees, these restrictions won't have an impact on the study's conclusions.

1.7 Organization of the study

The paper was organized into five chapters as follow. Chapter one present background of the study, statement of the problem, research question, objectives of the study, significance of the study, scope of the study, limitation of the study, and Organization of the study. Chapter two appraised both theoretical as well as empirical review of literature. Chapter three focused on research methodology.

The presentation, analysis, interpretation, and discussion of the study's findings in relation to the goals and questions of the research are covered in the fourth chapter. The final chapter, chapter five, summarizes the main conclusions and suggestions derived from the study's findings in chapter four.

CHAPTER TWO

2 Review of literature

2.1 Introduction

The purpose of this chapter is to review the literature in the area of theoretical contributions from various authors on tax audit practice. It also gives contribution of various research studies as carried out by various authors and then concludes on the general view of the various authors. The review has 16 major sections including the introduction. Section 2.2 presents definition of tax audit; 2.3 audit of government revenue 2.4 tax audit legal framework 2.5 objective of tax audit 2.6 types of tax audit 2.7 audit case selection method 2.8 audit work force capability 2.9 tax audit program 2.10 tax audit standard 2.11 tax compliance 2.12 reason for tax evasion 2.13 effects of tax evasion 2.14 audit effectiveness 2.15 key principles of tax audit proficiency 2.16 tax audit challenges and problems in revenue office 2.17 empirical review 2.18 conclusion and knowledge gap.

2.2. Definition of Tax audit

According to the Association of Chartered Certified Accountants (2009), an audit is a process that provides confidence to shareholders and other interested parties about a company's financial statements since it is impartial and independent

An assessment of a taxpayer's accuracy in reporting their tax burden and compliance with other requirements is known as a tax audit. Compared to other forms of inspection, including general desk checks, compliance visits, or document matching processes, it is frequently more thorough and detailed (OECD, 2006a).

According to Biber (2010), an audit program's function in a contemporary tax administration must go beyond only confirming that taxpayers have declared all of their liabilities and looking for differences between their declaration and the supporting paperwork.

An audit is the impartial review of a company's financial accounts and associated financial data, regardless of the company's size or legal structure, and regardless of whether it is being done for profit or not, with the goal of forming an opinion.

According to the American Accounting Association (AAA), an audit is defined more broadly as a methodical process of gathering, analyzing, and communicating information about claims made about economic actions and events in order to determine the extent to which

those claims and established criteria agree, as well as informing interested parties of the findings.

Auditing is a "attestation communication" in a more limited sense as it conveys the auditor's assessment of how closely accounting data matches predetermined standards./Arens,Elder &Beasley 2014

In terms of tax administration, a tax audit is when concerned tax authorities review tax returns to ensure that all necessary forms and attachments are included, that the tax returns are received on time, and that the calculation is accurate. One term for this would be internal tax audit./Internal Revenue Service 2021/

One of the most delicate interactions between a revenue authority and a taxpayer is a tax audit. The auditor's presence in a taxpayer's home or place of business, along with the investigation of personal and professional matters and the information gathered from taxpayer books and records, or simply the interruption of regular business operations, constitutes an administrative burden for the taxpayer and may be viewed by some as an unjustified encroachment into their affairs./James &Edwards 2008/. Despite this, tax audits continue to be the only reliable way to find out more information or confirm what has been submitted.

In every nation, the administration of tax laws is greatly aided by the tax audit function. Apart from their main responsibility of identifying and discouraging noncompliance, tax auditors frequently have to explain complicated legislation, conduct thorough reviews of taxpayers' books and records, and act as the "public face" of a revenue agency through their frequent interactions with taxpayers./OECD 2006/. There is a compelling argument for all revenue bodies to pay special attention to the overall management of the tax audit function given these characteristics and the sheer magnitude of the audit function in the majority of revenue bodies.

Attesting to financial accounts has historically been linked to the audit role performed by public accountants. /Arens et al,2014/ Tax auditing is an extension of this "attest function," which is often carried out by public accountants. In order to submit a return for tax purposes, an assessee must provide the relevant assessing officer with any supporting documentation that may occasionally be needed by tax legislation for simultaneous submission with the return. According to the tax code, the assessing officer may occasionally request that the assessee produce the same./OECD 2006/

The topic of a tax audit may come up in this situation. The term "tax audit" refers to the process of reviewing an assessee's accounting and other supporting documentation in order to

prepare an accurate tax return. It also includes preparing statements that detail the intricate computations made for various income heads or tax return items, as well as other necessary evidentiary statements about deduction allowances and disallowances. ./James & Edwards 2008/. All of these steps must be followed by an audit report that provides the auditor's assessment of the degree of correspondence between the tax return's information and the regulatory provisions of the applicable tax laws. ./Internal Revenue Service 2021/

.Thus, tax audit comprises the following:

_ Accounts and other evidences are required to comply with the “tax basis of accounting”, i.e. as per requirement of tax laws;/OECD 2006/

Preparation of tax return, statement of computational working for items in the return and statements containing particulars of allowances and disallowance for deduction; ./James & Edwards 2008/

_ Giving audit report portraying the attest function whether the tax return and statements have been fairly prepared as per the regulatory requirement of tax laws. ./Internal Revenue Service 2021/

The first person who comes to mind when we consider tax auditing is a public inspector, a civil servant who works for a government agency or public organization. However, when it comes to the audit of private financial accounts, the audit needs to include all economic and financial activities, including those that are tax-originated, and the auditor's judgment needs to address whether the taxpayer has accurately estimated their tax due.

For example, as per Kamal Gupta & Ashok Arora, the Income Tax Act, 1961 in India mandates the mandatory auditing of the accounts of specific income tax assesses, meaning individuals who are required to pay income tax, and whose turnover above designated thresholds. After the 1997 E.C. election, it was also implemented for a while in Ethiopia but was abandoned. Such audits are intended to support tax authorities in accurately assessing the assesses income taxes. Certain transactions that affect the assesses income tax liability and are thus significant to the tax authorities must be expressly reported on by the tax auditor

2.3. Audit of government revenues

The Supreme Audit Institutions have been focusing on the necessity of establishing revenue audit as a specialized and autonomous area for a while now, acknowledging the significance of an effective revenue collection system for mobilizing the government's budgetary resources. Supreme Audit Institutions (SAI) should conduct the fullest possible oversight of income, according to the recommendations of the International Congress of International

Organization of Supreme Audit Institutions (INTOSAI), which was held in Rio de Janeiro, Brazil, in May 1959.

When feasible, a check should be performed to determine if tax payments were made in accordance with the law rather than just ensuring that revenues are collected in accordance with the accounts provided by the collectors. SAIs should investigate if there has been overstatement in the estimations or carelessness with regard to collecting.

The SAIs should have access to automated accounting and statistical systems so they can perform their obligations, particularly in relation to revenue oversight. /INTOSAI 1959/

During the Third International Seminar of ASOSAI,/regional group of INTOSAI/ which took place in June 1988 in Bali, Indonesia, the idea of tax audit was one of the sub-themes. In the field of tax audit, the following recommendations were made.

A Audit mandate: SAIs should seek clear and specific legal authority for undertaking comprehensive tax audits in conformity with the relevant provisions of the Lima Declarations on Auditing Precepts./ASOSAI 1988/

(b) Audit of individual tax assessments: Examining individual tax files is crucial to determining how well the system and practices for tax assessment and collection are working. Focusing on high-value and risk areas can yield the greatest results, as it is neither practical nor required to examine every tax file .Preferred approaches include investigating alleged evasions, using appropriate statistical sample techniques when reviewing files, and selectively inspecting company income situations as opposed to salary assessments. Verification of tax payer data and information obtained by the tax office is possible through independent sources. ./ASOSAI 1988/

C Interpretation of tax laws: Under the tax regulations, SAIs are required to carefully review the rules, regulations, and notices that are released by the executive authorities. ./ASOSAI 1988/

(d) Scrutiny of decisions of tax authorities: Any judgments made by tax authorities in the exercise of their quasi-judicial and discretionary powers should be subject to a thorough examination. ./ASOSAI 1988/

(e) Audit methodology: Audits should primarily be system-based, with the goal of identifying gaps, inadequacies, and loopholes in both tax legislation and tax administration. Sufficient protocols for detecting and addressing tax evasion resulting from legal flaws should be examined in order to enable quick remedial action, such as legislative revisions. ./ASOSAI 1988/

(f) Socio-Economic implication of taxation. The social and economic goals proposed to be achieved through tax concession and relief should be reviewed in audit. /ASOSAI 1988/

(g) Reporting on the results of tax audit: It is essential that confidentiality be upheld when reporting individual evaluations in the audit reports due to concerns about personal privacy.

(h) Training of tax auditors: Being an expert in tax auditing necessitates having a deep understanding of all applicable rules and regulations. Tax auditors should get regular and extensive training from SAIs, utilizing the resources offered by other SAIs and the training facilities of their local tax department. /ASOSAI 1988/

One of the main sources of revenue for the government is taxes passed by various pieces of tax law. But how the two income streams—taxes and non-taxes—are distributed differs from country to country (Eugene, 2011)

(Mesfine, 2008) states that while nearly all tax returns are accepted as submitted without technical scrutiny when adopting self-assessment principles, the system has to be supported by a stable automated audit case selection system using risk-based screening techniques. Conversely, an audit is the process that audit staff members undertake to appropriately confirm the tax liability disclosures made by specific taxpayers. Eugene (2011) suggests cross-referencing tax payer records with those of the taxpayer's suppliers or with information obtained from other sources, such as the customs authority or other government departments and agencies.

2.4 Tax audit legal frame work

The type and extent of authority in the underlying legal framework in place, including the provision of sufficient powers for information gathering and an appropriate system of sanctions to discourage and penalize non-compliance, are crucial factors that determine the efficacy and efficiency of a revenue body's audit activities. In order to ensure that the taxpayer's liabilities reported in their returns are appropriately verified or, in the event that returns are not filed, accurately established, the audit and investigation staff of a revenue body must have the necessary access rights to information held by the taxpayer and other parties. In order to penalize and discourage non-compliance, there should also be a suitable system of punishments (OECD, 2006).

Ethiopian Ministry of Revenue (2019) states that a tax audit verifies if a taxpayer has accurately calculated, disclosed, and complied with their tax responsibilities. Only with a strong legal foundation can this examination move further; otherwise, it could be contested.

Regarding this, the Federal Tax Administration Proclamation, 983 of 2016's Article 28(1) establishes the legislative framework for audit activity in Ethiopia and serves as the cornerstone for the planning and execution of tax audits. It states that, subject to this Article, the Ministry may modify, reduce, or add to a tax assessment (referred to in this Article as the "original assessment") at any time by the taxpayer for a tax period, based on any available evidence to insure that

- I) The taxpayer is assessed for the accurate amount of the loss for the tax period in the event of a loss under Schedule "B" or "C" of the Federal Income Tax Proclamation;
- II) The taxpayer is charged for the appropriate amount of excess input tax for the tax period in the event that there is an excess amount of input tax under the Value Added Tax Proclamation;
- III) If there is any other situation, the taxpayer is responsible for paying the proper amount of tax due for the relevant tax period, even if it is zero. Extra emphasis was added.

The goal of Federal Tax Administration Proclamation Article 28(1), namely modifying the "original assessment," can be accomplished through tax audit activities. Consequently, the goal of tax audit activity is to evaluate taxpayer adherence to tax regulations (Proclamations). If fair and accurate tax assessments are to be issued, the auditor must have a strong working knowledge of tax law and its relationship (interface) with the accounting framework relevant to the taxpayer in order to assess taxpayer compliance with the tax laws (Proclamations) during audit activity for a given tax period. As stated in article 6(2) of the Federal Tax Administration Proclamation, the auditor's primary job during an audit operation is to exercise fairness. Just tax assessments lower the number of tax appeals, which boosts taxpayer trust in the Ministry and results in more compliance. According to Article (28(1)), audit activities must be evidence-based and employ strong audit processes in order to gather relevant audit evidence. This suggests that using arbitrary techniques to increase tax assessments would violate the tax law's precepts and be vulnerable to legal action. As a result, auditors must always rely on reliable data from reputable sources, such as IFMIS, consumer declarations (inputs), etc.. In accordance with Article 17 of the Federal Tax Administration Proclamation, taxpayers are also expected to keep records for tax law reasons in order to guarantee that the auditors' requests for evidence are met. It is anticipated that obtaining relevant audit evidence during audit activity won't be difficult because there is a

strong enough regulatory framework in place to guarantee that the auditors receive this data. This includes the right to view taxpayer documents at any reasonable time in accordance with article 18, the right to full and unrestricted access to any location, including goods and property, documents, and data storage devices, the right to make copies or extracts from any document, and the right to seize documents in accordance with Article 66 of the aforementioned proclamation. Nevertheless, only the Director General or any officer expressly designated by the Director General may exercise the authority granted by Article 66 (Article 66(2)). Therefore, it is necessary to obtain the Director General's specific consent. Nevertheless, even in cases when document seizure is necessary, officials must treat taxpayers with civility and respect (Article 6(2)). Furthermore, the above-mentioned clause 28(1) suggests changing the "original assessment." This is a self-assessment of the taxpayer in compliance with article 2(28) with regard to Value Added Tax, Excise Tax, Turnover Tax, Advance Tax, and Income Tax, as per article 25 read in conjunction with articles 2(29) and 2(30) of the aforementioned proclamation. In light of the aforementioned, it is intended that tax audit activity begin with the taxpayer's declaration (self-assessment), and that any changes made thereafter must be based on these submissions. According to Federal Tax Administration Proclamation article 28, the tax assessments resulting from it are called "amended assessments." Notwithstanding the foregoing, if the taxpayer neglects to file a tax declaration, auditing may begin.. Article 25 is instructive in that it states that the Ministry may, at any time and on the basis of any available evidence, make an assessment (referred to as a "estimated assessment") of the following when a taxpayer fails to file a tax declaration for a tax period as required by a tax law:

- 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 situation, if the taxpayer neglects to provide documentation, adjustments might be made using the information at hand. This could contain verified third-party data from IFMIS, Report Portal, ECX, and input tax that other taxpayers have claimed. However, the article uses the word "may" rather than "shall," suggesting that the auditor is free to make changes or provide estimated assessments even in the lack of supporting documentation. It is best

practice, however, to rely on supporting documentation, such as industry averages, to prevent expensive legal disputes that result from assessments that aren't justified. Best practice dictates that tax audit activity be prompted by a strong risk management system that detects and flags non-complying taxpayers. This necessity to depend on evidence as envisioned by articles 28 and 25 during audit activity is the foundation for this criterion. If risk management is grounded on evidence and verifies all sources of data within its field, then this can be achieved. A strong audit program is created for higher returns (audit yield and coverage) based on the risks that have been identified.

2.5. Objectives of tax audit

The major goal is to increase taxpayer compliance, which includes timely and accurate tax declaration and payment. If audits are possible, this should discourage taxpayers from filing false returns and, in some cases, even motivate them to do so. Additionally, it improves the taxpayer's understanding of the applicable taxes. The 2019 MOR audit manual Tax audits can also be used to identify and fix mathematical and/or accounting errors in tax returns, deter tax evasion, inform taxpayers of various tax law provisions, give management input on these legal obligations, and suggest future modifications. The ability to spot instances of tax fraud and suggest that they be looked into, stop taxable individuals from neglecting to file tax returns, stop taxable individuals from filing returns that are either incomplete or erroneous, and encourage voluntary compliance are all compelling reasons in support of the self-assessment program.

According to Bitrus (2014), the goals of tax audit are to allow the tax auditors to ascertain Whether or not:

- Adequate accounting books and records exist for the purpose of determining the taxable Profits or loss of the taxpayer and consequently the tax payable;
- The tax computations submitted to the authority by the taxpayer agree with the Underlying records;
- All applicable tax legislation have been complied with;
- Provision of an avenue to educate taxpayers on various provisions of the tax laws;
- Discourage tax evasion;
- Detect and correct accounting and/or arithmetic errors in tax returns;

- Provide feedback to the (tax administrators) on various provisions of the law and Recommend possible changes;
- Identify cases involving tax fraud and recommend them for investigation;
- Postpone a taxable person's failure to file their taxes.; and
- Forestall a taxable person rendering incomplete or inaccurate returns in support of the self-assessment scheme.

Erard (1994) listed a few reasons for conducting a tax audit, including helping the government collect the necessary tax revenue for the budget, preserving economic and financial order and stability, ensuring that taxpayers submit satisfactory returns, minimizing the extent of tax evasion and avoidance, enforcing strict compliance with tax laws by taxpayers, enhancing the level of voluntary compliance by taxpayers, and making sure that the amount owed is collected and remitted to the government.

2.6. Types of Tax Audit

Based on the sorts of taxes being audited, different forms of tax audits are used in various nations. These particular audit services include Financial statement assurance is provided by an audit of the company's financial statements. Compliance and operational audits are also performed to determine whether the company has complied with applicable laws and regulations (Grandcolas, 2005). From the tax audit service described above: Audits of performance include operational effectiveness and efficiency, while financial statement and compliance audits are typically used in tax audits. However, audits can vary in their scope and the level of intensity in which they are conducted. So, various terminologies have evolved to describe different types of audit activity (OJONTA, 2011).

2.6.1. Comprehensive Audit

According to Erbil (2011), a comprehensive audit entails a review of all data necessary to determine a taxpayer's tax liability for a specific time period. Up to the maximum allowed by law, this audit may include all tax liabilities throughout a number of tax periods or be prolonged over a number of years. A unit in charge of conducting thorough audits of all tax liabilities should receive all instances in which substantial underreporting or evasion has been found during any of the previous audits.

A thorough audit is divided into three categories: Very Complex, Complex, and Simple. Numerous characteristics, including size, organization, trade or profession, amount of data or

transactions, nature of the firm, and location, will affect this classification. In reality, the extent and character of any comprehensive audit activity to be conducted will rely on the data that is already available indicating the possible risks of non-compliance and the history of a taxpayer. Due to the taxpayer's financial situation and/or extremely complicated company activities, an audit may also be categorized and justified as difficult or very complex (MOR audit manual, 2019).

2.6.2. Single issue audits

Grandcolas (2005) claims that an issue-oriented audit only looks at one or two reporting periods and one tax type. Single-issue audits are limited to one instance of probable noncompliance that could be discovered when a taxpayer's return is examined. Given their specific focus, single-issue audits often take less time to complete and can be utilized to examine a sizable number of taxpayers who are engaging in similar concealment strategies. In reality, the extent and character of any audit activity carried out for a specific taxpayer will rely on the data that is now available indicating the anticipated risks of noncompliance and the past performance of a taxpayer. The unique complexity of a taxpayer's financial and/or commercial activity may also be a valid reason for extensive audit queries.

2.6.3. Field Issue Audit

A desk problem audit has now been elevated to a field activity or exercise. It's critical to keep in mind that the audit is restricted to crucial compliance concerns or a certain tax type or timeframe. In order to determine whether a taxpayer has complied with his or her responsibilities with regard to PAYE, VAT/TOT and Excise tax, Withholding Tax, or Income Tax, often for a certain tax period, a field issue audit is sometimes utilized. A field audit is often conducted on the taxpayer's property, away from the Inland Revenue office. It must be done on the taxpayer's property for the tax auditors to be able to examine the pertinent paperwork and get the necessary information directly from the company's executives. This takes longer and always calls for more fundamental paperwork. Documentation may also be brought into the office for thorough inspection, according to Ojonta (2011).

2.6.4. Desk Audit

A tax return will be examined by the inspector as soon as it is received at the Inland Revenue office. This audit is conducted regularly at the tax office, suggesting that the majority, if not all, of the returns submitted to the tax offices are covered by it. To guarantee that the things

provided for tax reasons are complete would be the main goal of the desk audit. The inspector conducting a desk audit will additionally check the tax computations and/or the supporting papers and records for any obvious flaws or inaccuracies. When further information or documentary proof is needed to satisfy the tax inspector conducting the desk audit, the results may necessitate the performance of a field audit. The main goal is to make sure that tax laws, rules, and regulations are followed to some extent, as well as to confirm any administrative checks or returns that have been filed (Ojonta, 2011).

2.6.5. Special Audit Projects

To ensure compliance in the industry, audits might be planned as a distinct project for a targeted or particular set of taxpayers over a certain time frame. These audit initiatives may focus on a particular sector of the economy, a line of company, or a trade. They are used to handle a specific risk or determine the level of non-compliance in a particular sector, industry, or commerce, and will consist of specialized inspections. All taxpayers in the targeted sector must be taken into account and dealt with as quickly as feasible for this audit type to be effective (2019 MOR audit manual).

2.6.6. Advisory Visit Audits

It entails the auditors visiting recently founded firms. They provide clients advice on the many sorts of taxes, how to file forms, how much is owed, how to preserve records, how to claim refunds, how to avoid audits, and how to deal with penalties for noncompliance. When adopting new tax legislation, these visits are highly suitable (OECD, 2006). A sort of tax audit known as a "fraud investigation" looks into criminal cases of noncompliance, which are where the most severe instances occur. It assists in identifying criminal behavior, fraud, and tax evasion. Meeting evidentiary criteria, seizing records or pieces of evidence, getting testimony from important witnesses, and creating court pleadings all require unique expertise in fraud investigations. It should thus be carried out in conformity with criminal procedural legislation. According to OECD (2004a), revenue agencies should keep a specialized organizational unit in place to handle major cases of tax fraud or evasion.

2.6.7. Refund Audits

Before processing a taxpayer's tax return, this step involves verifying the taxpayer's claim. The most common type of monthly claim for a refund is for VAT and/or WHT. The Refund Guidelines include information on the specifics. According to Grandcolas (2005), the refund

audit should only look at the time period covered by the claim. Before processing the initial refund claim, it is advisable to conduct a pre-refund audit to confirm the taxpayer's eligibility for a refund, especially for new registrants. Additionally, it is done when the refund claim dramatically deviates from historical norms and trends. Selective audits of additional claims should be conducted.

2.6.8. Registration and De-Registration Audits

Registration checks are a sort of unannounced inspections to taxpayers' premises for new businesses (mostly small and medium-sized), in order to find firms operating outside the tax system and to quickly verify that businesses are properly registered. It shouldn't take more than a half-day (OECD, 2006).

Erbil (2001) claims that during this visit, the tax officer checks that the taxpayer has a basic understanding of their duties, maintains appropriate records (bookkeeping review should be required in cases of voluntary compliance when the taxpayer's turnover is below the registration threshold), and issues proper invoices when required by law.

2.7. Audit Case Selection Methods

Compliance risk is the potential for taxpayers to fail to comply with the law, whether as a result of their ignorance, negligence, recklessness, willful evasion, or flaws in the tax administration process itself, and is only addressed by enforcement through an audit-based strategy (OECD 2004a). However, tax administrations lack the resources necessary to conduct rigorous on-site audits of all taxpayers' activities or complete cross-checks of all invoices or transactions.

Tax administration must design the audit program to deploy audit resources in a risk-based manner in order to achieve the highest possible compliance and revenue objective due to limited resources and a relatively large number of taxpayers to administer (especially in small and medium enterprises) (Thomson 2008; and OECD 2004a). As a result, the case selection approach is the first essential element of an effective audit. It is crucial to choose audit candidates that are in line with program goals. Whatever the audit objectives may be, achieving program goals and making the best use of audit resources requires the capacity to limit the pool of prospective audit candidates. No matter how automated and effective the audit process was, the efficacy of the audit would not be achieved if the wrong audit candidates were chosen. Therefore, choosing the optimal audit case approach or combination

of techniques is a decision-making process involved in administering a successful auditing program. By tax kind, the selection tactics could change. It could be dependent on the kind of industry or the stated tax amounts (Barreca and Ramachandran, 2004).

Barreca and Ramachandran (2004) state that the approaches used in audit selection range from straightforward random selection to more intricate rule-based selection, sophisticated statistical, and data mining methodologies. Selection methods might differ depending on the kind of tax and even within a single category. Random case selection, auditor screening or case review, automated risk assessment systems based on rule bases, data mining, and analytical review are some of the typical case selection techniques.

2.7.1 Random selection

It is helpful in the fight against corruption and has no prejudice when choosing audit cases. Taxpayers believe this process to be just. Although it is obviously not focused on the greatest risks, using it as the only way of case selection may have a large opportunity cost (Vellutini, 2010). Since probability selection gives both honest and dishonest taxpayers an equal chance of selection, simple random selection has the significant problem of treating them equally. However, the criteria- or information-based selection approach also has a disadvantage in that it assumes certain noncompliance clues that may really be signs of other things like changes in the economic climate in that specific trade (OECD, 2006).

2.7.2 Screening or case review by auditors

It is the conventional process for choosing audit cases and goes back to a period when there was little to no IT support, limited data was available in any event, and less established strategic risk management strategies. One advantage of this methodology is that it leverages local expertise to the fullest, reduces human opposition dramatically, may be applied to risks that have been specifically identified, and can function largely without IT support (OECD, 2004). The process of manually selecting audit cases relies on the auditor's familiarity with the behaviour and surroundings of the taxpayers. Though a successful case plan can be aware of a variety of investigative and analytical methodologies that may differ based upon the area of risk and the circumstances of the specific taxpayer, it is unable to identify patterns of noncompliance. The nature of the taxpayer's operations, the sufficiency of books and records, and the materiality of prospective adjustments all have an impact on the sort of tests that should be conducted and the records that the auditor needs to address particular issues.

According to the OECD (2006), the following methods are employed for audit examination purposes: field examination, record examination, analytical review, investigative approach, and counterpart examination

2.7.3 Analytical Review

In the early phases of the audit, financial statements and returns are frequently subjected to an analytical assessment. Taxpayers' claimed sales, cost of sales, and ending inventory are tested for correctness using ratios such gross profit and inventory turnover.

2.8. Audit Workforce Capabilities

According to OECD (2006a), revenue bodies must manage and develop their audit personnel to provide the desired results. To do this, they must progressively build and use competence or capability models. A capability or competence model is a formal description of the abilities, knowledge, and characteristics of employees needed to carry out a certain task effectively and efficiently. The model often includes task-related competence profiles, job descriptions, and functional descriptions. To assure and develop competence, it is often supported by training, tests, and educational requirements. The model serves as the foundation for managing hiring, personnel development, training, and performance across the audit function.

For work done on customers demonstrating diverse tax compliance habits or in different market categories, different competencies are needed. Common points of differentiation include the skills needed for aggressive, noncompliant clients, audit work with large businesses (this segment necessitates a deeper and more specialized understanding of specific regulations), performing system and electronic data base audits, and managing criminal and fraud cases (OECD 2006b).

Capability gaps: According to OECD (2006), revenue bodies may use recruitment procedures, programs like training and development, mentoring and coaching, accreditation models, job rotation and/or placement programs, career paths, knowledge-sharing initiatives, and knowledge tests to develop staff and address capability gaps. Capability gaps are often identified through a variety of sources, such as the performance management system results, client professionalism, satisfaction, and other comparable surveys, as well as training program assessments.

Competency assessment: Assessing and evaluating the staff's skills is crucial for tax administrations. For employees who are still in their existing employment, the direct manager frequently conducts competency evaluations throughout recruiting and promotion procedures on an annual or semiannual basis (OECD, 2006a). Human resource departments, external specialists, and/or panels of internal subject matter experts frequently conduct assessments as part of hiring procedures. Before beginning a new type of job or taking on a new responsibility, as well as continuous informal evaluations and learning and development initiatives, are other situations that call for capacity assessments (OECD, 2006).

2.8.1. Required Capability

The actions necessary to complete certain audit tasks are often analyzed, together with practice and experience, to determine the requisite competencies of auditors, according to OECD (2006a). Tax auditors frequently have to comprehend complicated tax rules and carry out extensive investigations of taxpayers' books and records in addition to their primary responsibility of identifying and discouraging noncompliance. As a result, revenue authorities pay great attention to the general administration of the tax audit function and, in particular, the tactics and procedures utilized for hiring, guiding, and supervising specific audit staff members.

Greater focus is needed on soft skills and other traits in addition to the essential core competencies. These include behavioral and motivational skills, character traits like hard work and integrity, a sense for spotting fraud and irregularities, the ability to observe and pick up on relevant environmental cues, the ability to spot patterns and explain their relevance to the situation, and proficient observational abilities. All employees should typically be familiar with fundamental bookkeeping, accounting, and business procedures (OECD, 2006).

Additionally, the idea of coaching, communication, and leadership skills is generally used to identify the necessary qualities of audit managers and directors. For audit managers and directors, the necessary skills frequently centered on leadership and management abilities, technical proficiency, advanced audit abilities, achievement orientation, ability to develop and coach others, high level communication abilities, and capacity for strategic decision-making (OECD, 2006).

Research by Kleven, Kreiner, and Saez (2009) explored the optimal income taxation of couples. While not specific to tax audits, the study highlighted the importance of considering

auditor capacity and administrative capabilities when designing effective tax systems. Adequate auditor capacity can ensure efficient and comprehensive tax audits, leading to improved revenue collection.

According to the OECD (2006), revenue agencies usually employ practice and expertise, along with an examination of the actions required to fulfill specific audit tasks, to identify the requisite competences of tax auditors. They were frequently predicated on the idea that auditors are generalists who might later specialize to suit the demands of the organization.

Apart from their main responsibility of identifying and discouraging non-compliance, tax auditors frequently have to interpret intricate tax regulations and conduct thorough reviews of taxpayers' books and records. Because tax auditors do a variety of tasks, it is necessary to hire and retain qualified tax auditors with technical expertise, auditing abilities, and tacit knowledge (Pope, 2011). Furthermore, how tax auditors behave during an audit may have an impact on how corporate taxpayers behave in terms of compliance. The interactions tax auditors have with taxpayers during an audit may have an impact on the taxpayers' future compliance behaviour. For instance, taxpayers may be more inclined to voluntarily comply if they are treated respectfully during the audit. The employee in issue, their direct manager, and/or the local management team are typically the ones that have the responsibility and accountability for developing tax auditors, audit managers, and audit directors. The organizational structure appears to have an impact on accountability and responsibility. Along with tax audit and training departments, human resource departments (where relevant) frequently share accountability and/or make major contributions to this process (OECD, 2006).

2.9. Tax audit program

A revenue body's audit program serves a variety of crucial functions that, when successfully carried out, may significantly enhance the way the tax system is administered. The majority of governments in the world are in charge of regulating the procedure for collecting taxes from people and businesses who live inside their borders (OECD, 2006).

A tax audit looks at whether a taxpayer has accurately disclosed their tax amount and complied with other requirements. Compared to other sorts of inspections like general desk checks, compliance visits, or document matching programs, it is frequently more thorough and in-depth. OECD, 2006a). According to Biber (2010), an audit program's responsibilities in contemporary tax administration must go beyond just confirming a taxpayer's declared liabilities and identifying inconsistencies between a taxpayer's statements and supporting

records. Knowing and comprehending the causes of taxpayer non-compliance is a crucial issue for any government or revenue-collecting organization.

The tax audit program gives the tax administration's compliance and enforcement branch visibility (Thomson, 2008). Effective tax auditing, according to Tait (1988), reduces tax evasion while also assisting tax authorities in achieving revenue goals that guarantee the economic stability of the nation and individual states. Furthermore, Barreca et al. (2004) pointed out that the goal of the tax audit is to check for tax evasion and guarantee conformity with the rules and laws.

Additionally, a well-designed tax audit program can be extremely helpful in gathering data on the state of the tax system (including trends in taxpayer compliance behavior), educating taxpayers (improving future compliance), and locating areas of the tax law that need clarification or addressing legal deficiencies (OECD, 2006a).

Only highly visible and efficient audit procedures, including the persistent use of harsh punishments where disobedience is detected, can ensure taxpayers' accurate and prompt self-assessment and compliance with tax laws. Taxpayers must believe there is a strong likelihood that unreported obligations and other types of noncompliance have been found during an audit (Biber, 2010).

On the other side, if an audit program is ineffective, tax compliance may worsen and the tax administration's credibility may be damaged. If taxpayers feel there is a slim risk of being audited, they might not be discouraged from reducing their tax payments (Ebrill, 2001). The direct and deterrent impacts of audits are both optimized by a strong audit program's use of methods. By auditing a greater proportion of substantial taxpayers, the first objective can be met (Biber, 2010). The judgment is always a careful balance between the treatment of the audit to control the temptation to avoid and the expense, even if the frequency of audit is a contested subject. Audits of registered traders cost less per year to conduct in areas where the tax system is comparatively well-established. The most accurate indicator of need, however, is not just the simple total of audits (Tait, 1988).

The program should be made available to as many taxpayers as possible at all levels to maximize the deterrent impact (Tait, 1988). Tax administrations must promote tax compliance through sound audit strategies rather than only enforcing it. Taxpayers' services may be improved by giving those clear instructions, comprehensible forms, and support and

information when required. This would make it easier for them to comply with the law. Information systems are necessary for compliance monitoring, as are adequate methods for identifying noncompliance (OECD, 2006).

The capacity of the tax authorities to increase taxpayer compliance and increase revenue collection depends on the development of an overall compliance strategy and programs, respectively (Russel, 2010). A taxpayer compliance program's goal is to recognize and address the biggest threats to the tax collecting system through a variety of actions targeted at the root causes of noncompliant behavior.

2.10. Tax audit standards

As with other audits, such as an audit of a firm under the Companies Act, the auditor should perform a tax audit using widely recognized auditing methods (Kangave, 2004). The numerous uses of noncompliant conduct declarations of the relevant nation convey the widely recognized auditing techniques. Before he checks the financial accounts and the statement of particulars, the auditor should have them validated by the assessor. Depending on his assessment of the internal control system in place at the organization under audit and the importance of the transactions, the auditor may use the selective verification approach.

When performing the audit, the auditor should keep in mind that the main goal is to help the authorities determine the assessed people's income. An auditor must design a strategy that integrates auditing principles with tax rules in order to execute a tax audit efficiently. Because of the nature of tax audit, an auditor must depend on several judicial rulings in the area of taxation (Kangave, 2004).

2.11. Tax Compliance

The exact meaning of tax compliance has been defined in various ways. For example, Kirchler (2007) perceived a simpler definition in which tax compliance is defined as the most neutral term to describe taxpayers' willingness to pay their taxes. Compliance in pure administrative terms therefore includes registering or informing tax authorities of status as a taxpayer, submitting a tax return every year (if required) and following the required payment time frames (Ming Ling, Normala and Meera, 2005).

Taxpayers decision to tax compliance influenced by several factors. these factors may be economic factors such as tax rate probability of being audited, tax penalty; psychological factors such as norm, moral, attitude of taxpayers; social factors such as demographic factors and tax Administrative factors such as probability of detection, complexity of tax system,

public service. Allingham and Sandmo (1972) were the first researchers to conduct empirical analysis into compliance behavior of taxpayers and they came up with a model which became known as A- S model. In the model, the compliance decision of taxpayers is considered to be affected by income of the taxpayer, tax rate, probability of audit, and fine rate.

2.12. Reasons for tax Evasion

Numerous research and writers, including Kirchler, Stephan, Barbara, and Ingrid (2007) and Magesa (2014), have identified numerous causes that motivate and influence taxpayers to engage in tax evasion. They said that these causes may be divided into two categories. The first group includes elements that have a detrimental impact on taxpayers' adherence to tax law. These variables (poor tax morale, tax system and impression of justice, low transparency and accountability of public institutions, high expenses to comply with tax rules) can be categorized as either causing a low desire to pay taxes or as contributing to a low willingness to pay taxes. The second category contains the reasons for the low ability of tax administration and fiscal courts to enforce tax liabilities (Kirchler, 2007).

These problems may be summed up as being brought on by deficiencies in the administration and collection of taxes, as well as a lack of capability in the auditing and monitoring of tax payments, which restrict the ability to find and hold offenders accountable. Additional factors that contribute to tax evasion include corruption in public office, poor tax education and awareness, misappropriation of taxes collected, ignorance of the tax authority, inadequate enforcement for default, proliferation of taxes, loopholes in the tax laws, unequal distribution of income, absence of "Quid Pro Quo," or something of value given in return (by the government), high level of illiteracy, and high tax rates.

2.13. Audit effectiveness

One of the key lessons learned during the 2017 Workshop was from Umar (2017)'s presentation on audit effectiveness. Umar contended that, in contrast to earlier research on the relationship between audit enforcement and tax compliance, which has traditionally focused on the effects of audit probability, detection probability, and sanctions, the dynamics of audits in developing countries do not always follow the assumptions made in advanced countries. Despite the new wave of socio-psychological elements after Allingham and Sandmo, he indicated that audit may still be a key component in tackling the pervasive tax non-compliance in developing countries (1972).

On the other hand, there is a big knowledge gap regarding the audit idea. The findings of earlier research on the topic are distributed in terms of audit frequency, detection chance, fines, and sentencing severity. Few studies look at all of these concepts at once or treat them as parts of a single construct; the majority only address one of these concepts at a time. Separating these concepts gives birth, in Umar's opinion, to the construct validity problem. Alternatively, he proposes a notion known as "audit effectiveness," encompassing audit likelihood, detection probability, and punishment efficacy.

The efficacy of the audit was evaluated by comparing the quantity of evidence chosen for analysis to the overall amount of evidence that was available and the ideal amount of evidence. The audit effectiveness metric was then divided by the number of minutes spent on the activity to determine audit efficiency, which was then defined as audit effectiveness per unit of time. The main conclusions were that performance was only impacted at the extremes of time pressure (which was controlled by four levels of a time budget for the work), with the auditors in the highest time pressure group outperforming those in the lowest time pressure group in terms of efficiency.. Efficiency was also affected by audit program structure, with high structure (more detailed audit procedures listed) being associated with increased efficiency.

The capacity to fulfill the budget was the definition of audit efficiency given by Apostolou et al. (1993), and it was operationalized as the percentage difference between actual and planned hours. The impact of leader conduct on audit efficiency was investigated in this study. Audit efficiency rose as a result of two leader behaviors: (1) encouraging collaboration and teamwork; and (2) enforcing discipline. However, demonstrating thoughtfulness resulted in a decrease in audit efficiency.

In addition in an economic sense, the concept of efficiency is rooted in the ideas of minimization of inputs, absence of waste, and least cost production methods

Efficiency, according to auditing practitioners, is typically defined as completing the audit work faster and thereby boosting profitability. In order to ensure that the taxpayer's liabilities reported in their returns are accurately established or, in the event that returns are not filed, properly verified, audit and investigation staff of a revenue body must have the necessary access rights to information held by the taxpayer and other parties. There should also be an appropriate regime of sanctions to punish and deter non-compliance

For these reasons, in order to support the conduct of tax administration activities, revenue bodies need a set of powers and sanctions in the legal framework. These powers and sanctions should include a suitable regime that covers a range of potential offenses as well as

sufficient powers for obtaining information. In actuality, this legal framework may be outlined individually in the laws regulating each tax that is managed or, ideally, in a single comprehensive tax administration legislation that offers a standard set of regulations encompassing all taxes, to facilitate legislative maintenance. (IMF). (2011).

Collectibles represent an additional potential consideration. Collectability is taken into account before to contact in certain countries, while in other countries, it is said that in the event of impending bankruptcy, it may come up during the audit process.

According to the collectability principle, there would be sufficient justification for not completing the audit if a taxpayer were unable to pay a future proposed tax assessment.

Administrations who choose not to employ this idea state that accurately assessing tax liabilities should remain the primary goal, with collectability serving as a secondary goal. Furthermore, since future payment potential is not taken into account, the taxpayer may not receive a full financial picture due to the limiting of collectability considerations to the present tax period.

2.14 Key Principles of Tax Audit proficiency

As to the OECD (2006), the audit systems that are being implemented in administrations demonstrate some essential principles that are relevant to quality audits... Adhering to these principles is not meant to diminish or take away the powers bestowed by law or procedure. Instead, they provide instructions on how an audit ought to be carried out;

Accurate - They reveal non-compliance, require a proper reading of the law, and result in an accurate determination of liability.

Efficient - They reduce the taxpayer's burden of compliance and the revenue body's resource consumption relative to the results obtained.

Objective - All decisions made are based on facts.

Transparent Throughout the audit, issues are often discussed with the taxpayer as they arise and are thoroughly documented in the work papers.

Fair - -Compliant with national laws and policies, both technically and procedurally.

Complete There is a clear beginning and end to the audit, and the taxpayer is aware of when it is finished.

Defensible - -The audit's choices and the auditing procedure itself can withstand examination from the outside.

Consistent - The audit should yield the same outcome for the same taxpayer conditions regardless of the auditor performing the audit.

2.15 Tax Audit Challenges and Problems in Revenue offices

-In an effort to boost revenue and reduce corruption, numerous developing nations have undertaken extensive tax administration changes over the past few decades, including tax auditing. Concerns regarding the efficacy of current administrative procedures and techniques as well as the development of tax policy have been brought up by the explosive increase in the volume and kind of commerce performed online and through other communication networks. However, there are numerous difficulties, such as:

Weak tax administrations In developing nations, a well-run tax administration is essential to generating internal resources, and the administration's capacity to do so should inform tax system design. However, many administrations still employ low-wage, inexperienced workers, have unsatisfactory service and enforcement roles, and lack integrated tax policies within their organizational structures. (OECD, UN AND WORLD BANK, 2011)

Low taxpayer morale- Poor governance and corruption are frequently deeply ingrained. As with other governance indicators (poor rule of law, political instability), corruption indicators are strongly correlated with low revenue (indeed, corruption operates as a tax itself and is likely to be a particularly regressive and inefficient form of taxation). Although there can be both direct and indirect causality, addressing governance flaws in tax collection is more important due to the prominence of tax collecting as an exercise of state power.(OECD, UN AND WORLD BANK, 2011)

Non-compliant business and individual: - The issue of compliance management Tax Audit and Compliance Management were related. To reinforce the credibility of the tax system beyond its foundations, more work needs to be done. Clearly defined tactics are needed to deal with the noncompliant companies and individuals.. Important compliance management techniques include knowing the characteristics of the taxpayer/trader community, recognizing the main compliance risks and how they manifest, Accountability should be made clear, compliance actions should have enough resources, and performance indicators and any corrective measures should be specified. There are no shortcuts when it comes to dealing with non-compliance; diligent, regular administrative labour is necessary (Tanzi and Zee, 2000).

Inefficient tax administration/Audit: - Although tax rules require taxpayers to make contributions to government coffers, the actual amount of money that a government receives

depends on how well its revenue auditing and revenue administration functions ((Bird, 2008)). Inadequate tax receipts are the result of weak revenue collection. Effective tax administration is a significant issue in emerging nations for a variety of reasons.

Insufficient Audit Staff and materials:

Not only do developing countries struggle to engage individuals and businesses in the tax system, but they also struggle with a lack of skilled administrative staff, high rates of illiteracy among taxpayers and tax collectors, inadequate computer infrastructure, and a dearth of trustworthy statistical data (Kangave, 2005).

Absence of experienced and qualified personnel: - A lack of suitable training facilities and opportunity exacerbates the issue of unqualified and inexperienced staff. The majority of training that is provided in developing nations is generic in nature, and it most definitely does not align with the specific reform initiatives that tax authorities are pursuing.

. Lack of modern technology, especially computers, to facilitate the taxation process is another impediment to effective tax administration (Bird, 2003).

Furthermore, tax audit issues fall into one of three groups, per Kitiliya (2011). The first was Tax Administration Challenges, which includes increasing the ratio of revenue to GDP, expanding the tax base, altering the perspective and integrity of staff, relying too much on taxes on international trade, auditing specialized sectors, and tax evasion. The second set of issues concerned tax policy reforms, with a particular emphasis on resolving tax exemptions and incentives. The third category of challenges pertained to factors outside of the control of the business, such as power stability and availability, lack of a national identity card, lack of biodata, physical location of business entities, internally robust integrated operational systems, and an inadequate ICT backbone from the outside.

Weak Inter-Agency Coordination: - There was also an issue with inter-agency coordination. Opportunities are underutilized and the relationship between the domestic tax and customs agencies is still weak. Customs and tax management can create standardized compliance models and response tactics by analysing trends. It must encompass more than simply the banking industry, various government oversight organizations, and revenue agencies. Improving information exchange between agencies appears to be one of the most efficient ways to enhance the equitable and successful collection of taxes, based on experience in numerous other nations. The difficulty of tax collection is inherently informational, and the capacity to draw on different information sources to identify taxpayers

and their actual tax burden is something that the basic ability to cross reference tax filings across agencies has the potential to address on a more general level. Thus, there is a significant deal of potential to improve tax collection by having a better understanding of the assets and activities of taxpayers by utilizing information from all relevant organs and Ministerial Offices, among other sources. However, due to bureaucratic infighting and a general lack of top level management, these types of information exchange are still far too limited to effectively make the assets of high net worth individuals more visible to the general public (Kitiliya, 2011).

Corruption: - is yet another element impeding the effectiveness of tax audit procedures. To comprehend the origins and moral conundrums associated with this vice, progress may and should be made in treating it critically. Strict institutional controls, including as internal audits, staff investigations, prosecutions, and codes of ethics, are in place to handle moral quandaries and misconduct. Limiting communication between taxpayers and tax officials can help minimize potential for rent-seeking. This can be achieved by streamlining and transparently implementing procedures. Tough managerial leadership is essential. High-level political decision-making is crucial. Furthermore, at whatever level of a country, persistent political will plays a critical role in the success of tax audit techniques. A crucial requirement to support technical capacity is political commitment, which needs to originate from the nation's top leadership and be steady, steadfast, and long-lasting. Significant advancement in cases when this has been anticipated, but little in other cases. A comprehensive strategy is necessary since base-narrowing exemptions can easily outweigh the benefits of administrative improvements.

Certain tax audit issues depend on the choice of caseworker, according to OECD (2004). Those who rely on a small set of data without systematically cross-referencing it with other data available in the administration's system; caseworkers, no matter how experienced, may overlook aspects of noncompliance that are unfamiliar to them; and those who possess the knowledge and skills to conduct such screening are typically those who can conduct the substantive intervention. Thus, expecting them to conduct this kind of screening comes with an opportunity cost. According to contemporary propriety norms, there need to be a distinction between examples that are being selected and cases that are being used.

2.16 tax audit resource

The resources available to revenue bodies to carry out the daily operations of revenue administration are usually limited. A procedure must be followed to decide how those resources should be distributed given the numerous tasks that need to be completed and the inescapable judgments on priorities. While senior management is granted extensive latitude in certain member countries regarding the allocation of personnel resources across various areas of activity, in others revenue bodies have relatively little authority in this regard. The allocation of resources among different taxpayer groups is a crucial concern for the audit function, regardless of the methodology used to determine the total budget for audit work. A revenue body's approach for improving compliance must include figuring out how best to deploy its resources (OECD, 2006).

Audits are an essential component of a revenue body's overall strategy for attaining better compliance with the laws because of the comparatively high quantities of staff resources available for audit work and the significant functions that audits can play. For this reason alone, carrying out audit operations necessitates a high level of planning, supervision, and assessment to make sure they are best supporting the revenue body's objective of increased overall legal compliance. In order to optimize the utilization of the resources allocated to audit work in alignment with the plan, an operational management structure that is both clear and effective is also necessary. (OECD, 2006).

2.17. Empirical reviews

Regarding empirical pieces of evidence on tax audit and revenue collection, the researcher comes across different studies carried out at specifying organizations in different countries but scanty studies that have been conducted to establish the potential effect of tax audit on revenue collection. The following subsection incorporates some of studies conducted around tax audit and revenue collection.

Mutarindwa Samuel and Rutikanga Jean De Dieu /2014/ study in Rwanda by taking 80 tax auditors conclude that, tax audit discourages and helps to identify evasion and fraud in taxation procedures due to deep investigation and analysis of taxpayers' financial statements until they find out the taxpayers who underreport their income thus, this lead to tax revenues growth because non-compliant taxpayers pay penalties and fines in addition to the principal amount of taxes due. This is in agreement with Shanmugam, (2003) and Dubin, (2004) who illustrated that audits have a positive impact on tax evasion and fraud.

Tax audit is a crucial part of any attempt to increase revenue production and plays a significant role in tax administration in Ghana, according to Sarfo2015, which collected data from 75 tax authorities in Ghana in addition to secondary sources. This is especially true now that self-assessment is increasingly becoming the norm in tax administration across the nation. It was discovered that the tax audit unit essentially completes all activities manually. The self-assessment regime demands an efficient and effective tax audit to optimize tax collection and prevent tax avoidance and evasion. This makes the tax system less transparent and accountable. This further impairs tax collection as well as the efficacy and efficiency of the audit procedure. Additionally, it hinders oversight and access to a variety of information sources.

The unit's staff members are well equipped with the fundamental information and abilities needed to do their jobs. To keep them up to date with the latest auditing trends and the necessity to look into abnormalities in the taxation process, sufficient short-term trainings and refresher courses must be offered. Additionally, it would assist in keeping them informed about the various tax law revisions. It should be mentioned that the majority of the audits conducted currently rely on documentation provided by the taxpayers. For tax-related purposes, these papers can't be completely trusted sources of information. For the purpose of authenticating and verifying the records of the taxpayers under audit, the unit need to be outfitted with the capability to retrieve data from third parties.

Niu (2010) in a study found a positive association between the audit and the voluntary compliance. The finding suggests that the audit productivity may be under estimated in many studies in the literature. It reminds us that when considering the productivity of the audit work. Besides the direct audit collections, we should also take the audit impact on the voluntary compliance into consideration. For this reason, the finding may provide tax professionals and tax authorities with incentives to strengthen the audit power and to better structure their audit organization to generate more revenue for the state. Niu (2010) Historical population data of a New York State economic sector were used in this study instead of experimental data or randomly selected sample data often used in the literature. The results of both Ordinary Least Squares (OLS) and Time Series Cross Section (TSCS) autoregressive modeling methods suggest that after an audit, a firm would report a higher sales growth rate. (Arachi& Santoro, 2007) also looked into how Italian small and medium-sized businesses used tax audit strategies as enforcement. The study concentrated on a significant advancement in the sector of small business and self-employed tax audits. The study's key conclusion was that because SMEs typically operate on the edge of the official and shadow

economies, tax enforcement for them is never easy. The study also demonstrated how the ideal tax enforcement strategy is impacted by the distribution of business sizes in two different ways. First, there may be a connection between a company's size and its inclination to avoid or evade taxes. Second, the size of the business may affect the tax auditing expenses and returns. According to the research, the business sector. The study also argued that business sector analysis might be a valuable policy tool for developing countries, which have a large shadow economy and a high share of microenterprises.

The impact of tax audits on Rwanda's revenue collection was investigated by (Harelimana, 2018). The study was restricted to 110 employees of the Rwanda Revenue Authority (RRA) headquarters in Kigali. The research used a descriptive methodology. Statistical calculations including averages, percentages, correlation, and regression analysis were all part of the data analysis process.. Ordinary least squares (OLS) regression method of analysis was adopted to determine the inferential statistics. The study's conclusion indicates that tax audits had an impact on revenue collection since, as indicated by the t-tests, there was a significant association between the amount of tax collected before to and following the audit.

(Mirera, 2014)carried out research on how tax audits affect the Kenya income Authority's ability to collect income. The study used a descriptive research design and was restricted to the Kenya Revenue Authority's Nairobi West district. The investigation was carried out using data from secondary sources. The t-test analytical model was used to examine the data..The study's conclusion demonstrates that, for both taxes paid before and after the audit, the parametric Pearson correlation or "value was significant according to the t-statistics results. This clearly indicates that the amount of tax paid after the audit has increased. Therefore, it is accurate to state that revenue collection and tax audit are closely connected.

(Zakaria"u, 2015)In Gumbo State, Nigeria, tax administration issues and prospects were researched. Examining the issues and future prospects of the Gombe State Board of Internal Revenue Services is the primary goal of this essay. The researcher's field survey and secondary sources form the basis of the data collection methodology. A lack of facilities, inadequate record keeping, inadequate staffing, and an unfavourable work atmosphere are among the issues noted. The results demonstrate that low revenue generation is caused by a number of factors, including low public awareness, inadequate training, unfavourable working conditions, low compensation, and a lack of motivating incentives.

In addition to the research on the impact of tax audits on revenue collection mentioned above (Gebeyehu, 2008), this study additionally examines the fundamental ideas of tax audits and examines their importance and function in boosting tax collections and enhancing tax administration capabilities. The study's findings showed that Ethiopia's highest tax to GDP ratio, recorded in 2003–04, was 13 %. According to the study, the only significant evaluation required for personal income tax is to confirm that the employer has sent the amount withheld to the appropriate tax body. However, because most taxpayers employ all means possible to understate their tax burden, company earnings tax is difficult to assess and collect due to the significant risk of understatement and evasion.

(Mihret, 2011) concentrated on the main issues with tax audit operations, such as the suitability of the audit type, audit rate, suitability of the audit case selection procedures, suitability of the audit examination methodologies, and expertise and capacity of the audit staff resources at the federal government level. According to the study's findings, the tax audit program is still in its infancy, with only a limited number of tax audit operations that appropriately target certain risks. The survey also reveals that insufficient audit coverage, a lack of a compliance risk-based audit case selection approach, a shortage of audit resources, and a lack of qualified and experienced tax auditors are the main issues. According to research on taxes and tax audit issues in 58 developing nations (Carnahan, 2015), several emerging nations' revenue systems have serious flaws. Furthermore, emerging nations must handle an additional layer of complexity in the process of creating and sustaining their revenue systems due to the growing globalization of economic activity.

Similarly Astebha (2016) focused on tax audit practice and its challenges at Ethiopian revenue and customs authority with specific reference to large taxpayers' office. Its objectives were intended to assess the challenges in the application of tax audit in the large taxpayers; to explore how tax audit is exercised in the reduction of tax avoidance and evasion, and to examine the competency of tax auditors of Ethiopian revenue and customs authority. The principal finding of this study was that declared income increased significantly more in the rational audit strategy group than in the control group. The results of the study indicate strongly that information concerning the use of rational audit strategies is superior to information concerning random audits, and that audit information, in general, is superior to no information.

Using secondary macrodata, (Mebratu, 2016) carried out a study to investigate the effect of tax audits on tax compliance in Ethiopia at the federal level. The partial coefficient regression statistical analysis approach was used to examine the data. The study's results for bivariate regression and Pearson correlation indicate a substantial link between the degree of tax compliance and the likelihood of an audit being detected. Additionally, the study's regression analysis shows a significant correlation between the quantity of audited files and the degree of tax compliance. The study's partial regression coefficient and Pearson correlation results demonstrate a substantial link between the degree of tax compliance and the number of audited files and the likelihood of an audit detection. The study comes to the conclusion that since tax audits, among other measures, have a significant impact on improving taxpayer compliance, the nation's revenue authorities and other interested parties should place greater emphasis on the role of tax audits by hiring the necessary personnel and fulfilling the necessary qualifications to increase taxpayer compliance and, consequently, the nation's tax revenue. "The Impact of Tax Audit on Revenue Collection: The Case of Ethiopian Revenue and Customs Authority" by Tsegay Teklu and Yibeltal Mekonnen (2018). This study focuses specifically on the Ethiopian context and examines the impact of tax audits conducted by the Ethiopian Revenue and Customs Authority (ERCA) on revenue collection. It analyzes data from a sample of taxpayers and investigates the relationship between tax audits and compliance behavior. "The Effect of Tax Audit on Revenue Collection: Evidence from Africa" by Richard M. Bird and Sally R. Wallace (2018). This research provides a comparative analysis of the effect of tax audits on revenue collection across several African countries. It explores the relationship between tax audits, compliance behavior, and revenue outcomes, taking into account regional variations and factors influencing the effectiveness of tax audits in Africa. "Determinants of Tax Compliance in Ethiopia: The Role of Tax Audit" by Tsegay Teklu and Yibeltal Mekonnen (2016). This study investigates the determinants of tax compliance in Ethiopia, with a specific focus on the role of tax audit in influencing taxpayer behavior. It examines the impact of tax audits on compliance levels and revenue collection, drawing insights from empirical data and interviews with tax officials and taxpayers. "Assessing the Impact of Tax Audit on Revenue Performance in Ghana" by Kwaku Ohene-Asare, Daniel Agyapong, and Seth Oppong (2017). This study explores the impact of tax audits on revenue performance in Ghana, providing insights into the African context. It evaluates the effectiveness of tax audits conducted by the Ghana Revenue Authority (GRA) and examines the relationship between tax audits, compliance behavior, and revenue outcomes.

The influence of tax audits on taxpayer compliance in Ethiopia was investigated in a paper titled *influence of Tax Audit on Improving Taxpayers Compliance* (Augmas, 2016). The study made use of secondary data by carefully examining the ERCA data from 2001–2002 to 2014–2015. Inferential analysis with partial and bivariate regression. The study discovered a significant correlation between the degree of tax compliance and the likelihood of an audit being detected. The degree of tax compliance coefficient regression and the number of audited files are strongly correlated, according to the regression result.

(Ephrem, 2016) *Impact of Tax Audit on Tax Compliance: Ethiopia's Selected Category "A" Case Study* was researched. Examining the effect of tax audits on tax compliance in Ethiopia was the study's goal. Both primary and secondary data were included in the structured questionnaire used to collect the data. Multiple regression analysis, correlation, and descriptive statistical methods were applied. The study found that tax compliance levels are positively impacted by tax knowledge, tax audit probability, and tax education. Penalties and fines also have a favorable impact on the degree of tax compliance.

(ABEBE, 2017) The case of the large taxpayer branch office was examined in the assessment of tax audit procedure and its challenges. The study's main goal was to evaluate tax audit procedures and the difficulties they provide for large taxpayer offices. Both quantitative and qualitative research methods as well as the descriptive method of data processing were applied. main and secondary sources of data were gathered; major taxpayers and the tax audit personnel were surveyed to obtain the main data. A structured questionnaire was given to 67 taxpayers and 55 tax audit staff members. Scholarly published papers, the internet, journals, and both published and unpublished ERCA documents were the sources of the secondary data. The study's findings showed that the tax audit has issues with applying information technology (SIGTAS) to the fullest extent possible, inexperienced auditors in dealing with tax evasion and avoidance, and a weak taxpayer education program that is unable to raise taxpayer compliance levels.

The Oromia Revenue Authority's tax audit difficulties were examined by (Tesfaye, 2018). Evaluating the procedures and difficulties associated with tax auditing at Oromia Revenue Authority was the study's main goal. The study used a mixed research approach that included in-depth interviews and survey design. A survey was carried out among a specific group of taxpayers and tax auditors employed by Oromia Revenue Authority. Achieved sample size was 213 Oromia Revenue Authority auditors

The study's findings showed that. There are no tried-and-true methods for continuously training tax auditors to increase their competence and efficiency in the workplace. The most severe challenges were found to be those associated with corrupt traditions, exaggerated tax estimates, late responses to taxpayer compliance requests, illicit business practices by taxpayers, and a lack of coordination amongst regional sector offices handling tax audit-related duties.

research by various authors, such as Tran-Nam and Evans (2005) and James and Alley (2002), has emphasized the importance of efficient tax administration and modernization in improving compliance and revenue outcomes. Revenue protection systems and tax automation can streamline processes, reduce errors, enhance data analysis capabilities, and improve taxpayer compliance through simplified and transparent procedures.

Tax audits appear to have a favorable influence on tax compliance and revenue results, according to the research on their impact on revenue collection. Research from Ghana, Kenya, Ethiopia, Italy, Rwanda, and Ghana shows how important tax audits are in detecting non-compliant individuals and deterring tax fraud. The results show that by carefully examining taxpayers' financial records, enhancing voluntary compliance, and punishing non-compliant taxpayers, tax audits improve tax collections. For the purpose of generating income, efficient and successful tax audits are essential, as are sufficient training programs for auditors and availability of third-party data. Additionally, the studies emphasize the importance of considering firm size, costs, and returns of tax auditing when determining the optimal enforcement policy. Challenges such as low audit coverage, resource scarcity, and lack of experienced auditors need to be addressed for effective tax audit operations. Overall, the literature supports the notion that tax audits play a significant role in improving revenue collection. Information and communication technology has tremendously facilitated the Tax Authorities' audit efficiency and effectiveness activity, which is determined by the type and scope of authorities in the core legislative framework. In particular, the use of information technology and audit software is becoming essential in this day and age of intense competition and a complex business environment (Zabibollah Rezaee, 2018). These days, online marketing, online reporting, and enterprise resource planning (ERP) are used to connect IT with every aspect of business operations. Therefore, in order to improve the calibre of financial reporting and business organization auditing, suitably qualified IT auditors should receive training (BARTA, 2018). This suggests that upper management's

support, the allocation of resources, the skill of the audit personnel, and the quality of the audit are all necessary for an effective tax audit (OECD, 2006).

Efficient tax administration and the use of tax automation systems can streamline processes, reduce errors, enhance data analysis capabilities, and improve taxpayer compliance through simplified and transparent procedures (Tran-Nam and Evans, 2005; James and Alley, 2002). the use of audit software and skilled IT auditors becomes essential for improving the quality of financial reporting and auditing in organizations (Zabibollah Rezaee, 2018; BARTA, 2018). The support of higher management and resource allocation, along with the competency of audit staff and the quality of audit, are key factors in achieving effective tax audits (OECD, 2006).

2.18. Conclusion and knowledge gap

The purpose of this part is to give a general summary of earlier research on tax audit procedures. In spite of the wealth of research in this area, the majority of studies have concentrated on proving that tax audits, government revenue, and tax compliance are positively correlated. These studies typically come to the conclusion that by improving tax compliance and decreasing tax evasion and avoidance, tax audits have raised government revenue.

Creating focused and effective audit tactics requires an understanding of the variables that affect how well tax audits generate income. Finding the precise elements that lead to different revenue results after tax audits is a research gap that is evident, nevertheless. Tax audits may boost revenue collection in the near term, but it's important to evaluate if these benefits will last over time. Studying the longevity of revenue effects and the possibility of alterations in taxpayer behavior during the audit procedure may shed light on the long-term effects of tax audits on revenue.

Furthermore, a few studies have tried to solve the problems associated with tax audits by focusing on issues including boosting revenue, enhancing the ability to administer taxes, and overcoming implementation hurdles. In particular, significant research has been done on the difficulties encountered by the East Addis Ababa branch office of the small taxpayers.

Notwithstanding these endeavors, a notable lacuna exists in the body of research that is expressly devoted to the subject of tax audit procedures in the Ministry of Revenue's Eastern Addis Ababa small taxpayers' branch office. To the best of the researcher's knowledge, not

much scholarly research has been done on Ethiopian tax audit practices. By assessing the tax audit procedures in this situation, our study seeks to close this knowledge gap. It will center on the tools at tax auditors' disposal, their qualifications, the standards by which tax audits are chosen, and the automation of the tax audit procedure.

By focusing on these topics, the study will help to clarify the difficulties and efficacy of tax audits in Ethiopia and offer suggestions for optimizing audit procedures and, eventually, raising public revenue.

CHAPTER THREE

3. Research design & methodology

3.1. Research design

One of the most important instruments for doing research correctly is research design. According to this interpretation, a research technique is chosen in response to the research questions of a particular study. This is so because research design serves as a road map for a research plan that aims to address each research question and achieve the study's objectives. Therefore, a research's methodological process is its research design..

The researcher employ a hybrid research methodology, combining qualitative and quantitative methods. The benefit of triangulating or offsetting limitations in the data collecting and analysis stages in both the qualitative and quantitative approaches is the rationale behind the usage of mixed methods. Furthermore, this method allows for a more accurate interpretation of the results because it addresses information that a previous method would have overlooked. Additionally, it's the most trustworthy and valid method for fostering comprehension of the intricate and far-reaching social reality. Moreover, the utilization of this methodology aids in guiding the respondents' understanding of the study issue being addressed. In order to gather quantitative data to address the research questions, a quantitative research approach using a quantitative research questionnaire is essential to achieving the study's primary goals. In order to assess the audit practice and its difficulties, primary data from in-depth interviews, observation, and document analysis are also obtained using the quantitative technique. Therefore, the study used a mixed research approach and a descriptive research design, as its primary goal is to examine the practice of tax auditing.

3.2. Source of data and sampling technique

3.2.1. Source of data

For this study, primary and secondary data have been employed. From the primary sources of data closed and open ended questionnaires are used . For secondary data reports, data base ,other branch office`s documents are used. The questionnaires have collected from the experts and team leaders of tax auditors in the Eastern Addis Ababa small tax payers' branch office. Those tax auditors have full firsthand information and sufficient knowledge about the tax audit practice

3.2.2. Sampling technique and sample size

The practice or technique of choosing an appropriate sample that is representative of the population it is drawn from in order to ascertain attributes or characteristics of the entire population is known as sampling (Singh, 2007). A census technique is used in this study to guarantee thorough data collecting. 80 professional experts from the Ministry of Revenue's Tax Audit work process, who have deep knowhow and first hand information, at the Eastern Addis Ababa small taxpayer branch office make up the population. They include: 10 Team Leaders and 70 Tax Auditors

Census approach guarantees that no important viewpoint is overlooked and offers a comprehensive grasp of tax audit practice. With 80 people living there, a census is both doable and reasonable. Removes biases and sampling flaws to improve accuracy and reliability.

3.3. Research instruments

There are several data gathering methods and devices that may be employed in a quantitative research strategy. For this study, the primary research tool used was administering questionnaires using Likert scale questions. Therefore, the primary research tool for gathering data for this study is a structured, closed-ended and open ended questionnaire. The structured questionnaire employed in the study is a popular and practical tool for gathering survey data. According to Wilson and McLean (1994), questionnaires may yield organized data, can be conducted remotely, and are frequently relatively easy to evaluate. The use of questionnaires as data collecting tools has benefits and drawbacks of their own. According to the research, the benefits of using questionnaires to gather data include their efficiency, reliability due to their anonymous nature, honesty, economy of time and money, speed, consistency, and ability to maintain the confidentiality of the data sources. However, the main drawbacks include low response rate, lack of qualitative depth, and rigidity (once the administration phase begins, it is impossible to go back) (Cohen et al., 2000). Structured questionnaire is appropriate to gather straightforward and uncomplicated information. It is easy to classify and quantify, require less time and effort, and ingenuity to answer. Thus, for this study the researcher employed mere structured questionnaire for required data collection. After the researcher make discussions about the proposing research deeply, and review related literature, the researcher proceeds to the preparation of questionnaires. Hence the questions were:

- 1 the respondents can answer easily by agreement or disagreement
2. Small in number
3. Not time consuming and
4. let respondents comment their feeling

The procedures followed in gathering the data ethically includes:

- By asking the willingness of the respondents
- By telling the respondents to give answers and encourage to fill their feelings
- By insuring that their response will not be identified from others
- By insuring that their response will not touch their dignity and will keep as confidential
- By giving heart full thanks for their cooperation in giving their responses and golden time

3.4. Method of Data Analysis

Descriptive analysis is the data analysis technique. Descriptive study is used because the researcher wants to describe the current situation that is being studied. The goal of the descriptive survey approach is to look into the current state, procedures, and issues surrounding the tax audit of the MOR-East Addis Ababa branch office. With the aid of SPSS software, the researcher uses descriptive analysis for this study, utilizing tables and percentages.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4. INTRODUCTION

The in-depth analysis of the findings derived from the information acquired from primary and secondary sources is covered in this chapter. Descriptive statistical techniques were used to organize the study's raw data, and the researcher employed descriptive analysis to assess and interpret the findings. Descriptive statistics, such as percentages and frequencies, were utilized.

4.1 Respondents' response Rate

Eighty self-administered semi-structured questionnaires were distributed to tax auditors at the Ministry of Revenue's Eastern Addis Ababa Small taxpayers' branch office. The researcher has distributed 80 questionnaires to respondents but only 65(81%) questionnaires were returned and the rest of the respondents not return the questionnaire. As Yesegat (2008).stated, the response rate of 71.8 % was reasonably good in consideration of the difficulty to collect data in poor developing countries; Ethiopia in particular. Therefore, the response rate for the study was 81%. This indicates that the response rate was greater than the average response rate

4.2 Demographic profile

4.2.1 Gender of respondents

Table 4.1 Gender of respondents

Gender	Frequency	Percentage
Male	22	33%
Female	43	66%
Total	65	100%

Source: Compiled from survey questionnaire (2024)

Based on the information shown in Table 4.1, 43 (or 66%) of the 65 employees who responded were female, while the remaining 22 (or 33%) were male.

By contributing diverse viewpoints and methods to problem-solving, gender diversity can improve team effectiveness. A predominately female staff may be a sign that the branch has been effective in luring and keeping women in positions of professional responsibility, which can enhance the team's collective competency.

The gender distribution of the tax auditors indicates a diversified workforce, with women making up the majority (66%) and men making up a sizable minority (33%). Because of this diversity, the team can be more effective overall because it brings a range of viewpoints and methods to tax audits. Regarding achieving the tax office's strategic goals:

4.2.2 Age of respondents

Table 4.2 Age of respondent

no	Age	Frequency	Percentage
1	20-30 years	21	32.3%
2	31-40 years	31	47.7%
3	41-50 years	11	16.9%
4	Above 51years	2	3.10%
Total		65	100%

Source: Collected from questionnaires used for the census, 2024

According to table 4.2 above A study of 65 tax auditors at the East Addis Ababa Branch Office of the Ethiopian Ministry of Revenue indicated a wide age range among the team, suggesting a combination of new ideas and expertise. 47.7% of the responders, or a sizable majority, were in the 31–40 age range. This group is probably made up of professionals in the middle of their careers who are excellent assets to the audit practice because they combine a wealth of real-world knowledge with creative thinking.

In addition, the age range of 32.3% of the auditors fell between 20 and 30. Despite being relatively new to the field, this younger group brings new insights and modern methods to the field of tax auditing. Their energy and fresh perspectives are essential for advancing contemporary procedures in the department.

The proportion of responders in the age group of 41 to 50 was 16.9%. This group of specialists consists of seasoned experts with a wealth of expertise. For the office to continue

to grow professionally and uphold high standards, they must be able to guide and mentor newer auditors.

Finally, 3.1% of the auditors that responded to the study were older than 51. These people usually work in senior or advisory roles and use their extensive institutional knowledge and expertise to steer the department's strategy and policy implementation.

The workforce at the East Addis Ababa Branch Office is well-rounded, with a solid balance of youthful energy and seasoned competence, as evidenced by their demographic distribution, which guarantees a strong and dynamic approach to tax audits.

With over 80% of the tax auditors in their 20s to 40s, the age distribution of the workforce points to a workforce that is primarily in the prime of their careers. This group is often defined by a combination of growing experience and innovative youth. Although younger auditors might not have as much experience as their more seasoned counterparts, they do provide fresh ideas and abilities that are essential for advancing tax audit procedures.

Based on the age demographic data, the branch can potentially meet its strategic objectives in an effective manner if on-going training and professional development are prioritized in order to fill in any experience gaps. Moreover, by utilizing the strengths of each age group, a dynamic and competent audit team that can adapt to and overcome the challenges of tax auditing can be formed.

4.2.3 Educational profile

The respondents' degree of education is depicted in the following figure.

Table 4.3 lists the educational backgrounds of tax officers and auditors.

Variables	Description	Frequency	Percent
Educational level of respondents	BA Degree	42	64%
	Master's degree or above	23	36%
	Total	65	100%

Source: Collected from questionnaires used for the census, 2024

According to Table 4.3 the respondents' educational attainment profile, 64% of them hold at least a basic college degree. The foundational knowledge and abilities needed for professional positions, such as an awareness of tax laws, audit techniques, and ethical standards, are often provided by bachelor's degrees. Furthermore, 36% of the auditors hold master's degrees, suggesting that a sizeable segment of the profession has completed postgraduate coursework. Since master's degrees frequently require more advanced and specialized courses, it seems to reason that auditors with these degrees would be highly knowledgeable in subjects like tax law, accounting, financial analysis, and audit methods.

The demographic data indicates that the small taxpayers branch office in East Addis Ababa has a workforce that is reasonably well-qualified. The auditors' strong understanding in relevant subjects and extensive training indicate that the branch is likely to achieve strict standards for tax audit procedures, based on their educational backgrounds. The auditors' level of education is a good indicator of their capacity to carry out intricate audits with efficiency and to maintain the highest levels of accuracy and professionalism in their job.

4.2.4 Field of study

Table 4.4 Tax auditors and tax officials field of study

no	Tax auditors and tax officials Field of study	Frequency	Percent
1	Accounting	43	67%
2	Economics	7	11%
3	Management	8	12%
4	Business Administration	4	6%
5	Others	3	4%
Total		65	100%

Source: compiled data from the 2023 census questionnaires

As can be seen from Table 4.4 above, of the 47 respondents, the majority (67%) had studied accounting, with 12% having studied management, 11% having studied economics, 6% having studied business administration, and 4% having studied other topics.

The majority of tax auditors (67%) have studied accounting, which is particularly important to tax auditing, as can be seen from the data on the subject of study. This implies that they possess a strong foundation in the financial principles and practices required for tax audits. A further 12% of auditors have a management degree, which gives them valuable knowledge of

the organizational and administrative facets of auditing. An further 11% possess an economics background, which offers them a solid comprehension of economic systems and regulations that can aid in understanding more general tax matters. corporate administration, which encourages strategic thinking and a thorough understanding of corporate operations and is helpful in a variety of auditing circumstances, is studied by 6% of auditors. Furthermore, 4% of the auditors' educational backgrounds are classified as "other." Although these fields may be less directly related to tax auditing, they can still offer unique insights and skills.

According to the data, the tax auditors at the small taxpayers branch office in East Addis Ababa have educational backgrounds that make them suitable for doing efficient tax audits. The majority's accounting education helps them become more knowledgeable about tax-related subjects and guarantees that they have the skills needed to conduct accurate and comprehensive audits. The team's capacity to handle numerous facets of tax auditing is further supported by the presence of graduates in business administration, economics, and management, which makes the workforce diverse and well-equipped to tackle various auditing issues.

4.2.5 Current position of tax auditors

The following table shows the status of the tax auditors at the Ministry of Revenue's minor tax payer branch office located in eastern Addis Ababa.

Table 4.5 Current Position of auditors

no	POSITION	Frequency	Percentage
1	Junior tax auditors	14	22%
2	Tax auditors	16	25%
3	Senior tax auditors	25	38%
4	Team Leader	10	15%
Total		65	100%

Source: compiled data from the 2024 census questionnaires and own computation.

Table 4.5 above shows how the replies were distributed: 38% of the workforce was comprised of senior tax auditors, 25% of tax auditors, 22% of junior tax auditors, and 15% of tax audit team leaders, in that order. Overall, the study found that over 85% of participants were employed as tax auditors or above. Consequently, the study's findings implied that the

participants had first hand experience with tax audits and were competent to understand and complete the questionnaire.

Comprehending the allocation of roles in the tax auditing division offers valuable perspectives on the degree of expertise and accountability possessed by the participants. According to the data, senior tax auditors make up 38% of the workforce. This means that a sizeable portion of the workforce has advanced positions, which reflects a high degree of expertise and skill. 25% of auditors work as tax auditors, which is a sizable percentage of auditors with modest experience who are actively involved in daily audit activities. Furthermore, 22% of the workforce consists of junior tax auditors, indicating the existence of entry-level workers who are likely still learning and developing their skills. 15% of the total are team leaders for tax audits, suggesting that a sizable portion of responders occupy high positions, indicating their expertise in managing and overseeing audit operations.

The distribution of employment within the tax auditing branch indicates that most respondents have extensive experience and responsibility in their roles, with over 85% of participants working as tax auditors or above. Based on their demographic profile, the respondents appear to be in a good position to provide insightful and relevant opinions about tax audit procedures. A high level of expertise and knowledge is supported by the workforce's noticeable presence of team leaders and senior auditors. A solid resource base is provided by this well-organized hierarchy, which has a wide range of experience levels, for carrying out effective tax audits and accomplishing the strategic objectives of the tax office.

4.2.6 Work experience of tax auditors in MOR Eastern Addis Ababa small tax payer's branch office.

Figure 4.6 below shows the work experience of tax auditors at the Ministry of Revenue's small taxpayer branch office in Eastern Addis Ababa. Thirteen tax auditors (17%) reported having less than two years, seventeen (22%) from 2-4 years, twenty-six (34%) from 4-6 years, eight (11%) from 6-10 years, and twelve (16%) from over 10 years, in that order.

Table 4.6 Frequency of work experience of auditors.

no	Experience	Frequency	Percentage
1	Less than two years	11	17%
2	2-4 years	14	22%
3	4-6 years	23	35%
4	6-10 years	7	11%
5	Above 10 years	10	16%
Total		65	100%

Source: Compiled from census questionnaire 2024

The work experience of tax auditors at the Ministry of Revenue's small taxpayer branch office in Eastern Addis Ababa is displayed in Figure 4.6 above. Out of the total, eleven tax auditors, or 17%, claimed to have less than two years of experience. Entry-level employees make up this group; they are probably still honing their skills and gaining practical experience. Twenty-four tax auditors, or 20%, said they had two to four years of experience. This group of professionals is made up of more recent graduates who have already surpassed the early learning curve and are more experienced in their fields.

Furthermore, 23 tax auditors, or 34 %, stated they had four to six years of experience. This indicates a good base of practical knowledge and skill and shows that a good percentage of workers have a moderate amount of experience. 11 %, or seven tax auditors, stated they had between six and ten years of experience. This group consists of more seasoned professionals that are capable of handling more difficult audit assignments due to their vast expertise. Finally, ten tax auditors, or sixteen %, indicated that they had worked for more than ten years. The seasoned auditors on this team most likely have a wealth of institutional knowledge and expertise.

The tax auditors' experience levels show a well-rounded workforce with a balanced mix across different stages of professional development. Based on their demographic profile, the respondents appear to have the necessary expertise and practical knowledge to provide relevant and informative information regarding tax audit procedures. The inclusion of auditors with varying levels of expertise and those at entry level offers a thorough understanding of the difficulties and procedures involved in the tax audit process, which strengthens the auditing team.

4.3. Results and Findings on tax audit practice

4.3.1. Adequacy of Audit Resources

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

Table 4.7 Adequacy of Audit Resources in MOR. eastern Addis Ababa branch office.

Item no	Statement	Strongly agree		agree		neutral		Dis Agree		Strongly dis Agree	
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
1	East A.A small tax payers branch office has enough audit staff to perform auditing to all selecting tax payers.	0	0	7	10.8	5	7.7	33	50.8	20	30.8
2	Does A.A small tax payers branch office have enough audit resource materials for Audit program?	5	7.7	32	49.2	1	1	27	41.5	0	0
3	East A.A small tax payers branch office has enough qualified and experienced audit staff to perform tax audit program	0	0	9	13.8	11	16.9	26	40	19	29.2
4	Does East A.A small tax payers branch office perform a continuous assessment to improve the capability of auditors and staff resources	0	0	10	15.4	13	20	25	38.5	17	26.2
5	An individual auditor averagely accomplished audit cases assigned a year	7	10.8	33	50.8	12	18.5	13	20	0	0

Source: Compiled from census questionnaire 2024

The sufficiency of audit resources at the tax office is shown in Table 4.7 above. Seven (10.8%) respondents agreed that there should be adequate audit staff to conduct audits for all tax payers who choose to participate. Nonetheless, 53 respondents (81.6%) indicated that they disagreed or strongly disagreed, while the remaining 5 respondents (7.7%) indicated that they were neutral.

The resounding disagreement among responses raises grave questions about the audit staff's ability to manage the workload. There were several possible reasons for this conflict to arise, including:

First and foremost, a big worry was insufficient staffing in comparison to the audit burden. An inability to adequately meet the demand for audit services may result from this staffing shortfall. Second, there is a large demand for audit services, which may cause current staff members to become overworked and burned out. The effectiveness and accuracy of audits may be considerably impacted by this heavy burden in the absence of sufficient support.

Financial constraints are also very important since they make it impossible to hire the extra audit staff that would be required to fulfil the growing demand. Finally, ineffective auditing practices are a result of the present audit staff's inadequate skill sets and training. The efficacy of the audit process is hampered by a lack of requisite expertise and continuous training.

To sum up, the results show that improving training initiatives, staffing shortages, and obtaining funding are all vital for strengthening the East Addis Ababa small taxpayers branch office's audit capabilities. To guarantee that every taxpayer who chooses to participate can have a sufficient audit, these steps are necessary.

The majority of respondents—37, or 56.9%—were in agreement or strongly in agreement with the provision of materials and office equipment needed for tax audit practice. The remaining respondents—27, or 41.5%—were in disagreement or strongly disagreed, while one respondent, or 1%—seemed unconcerned.

Given that most respondents think that office supplies and necessities are provided in sufficient amounts, the majority agreement implies that there is some satisfaction with the way resources are currently delivered. The sizeable percentage of respondents who disagreed or disagreed strongly, however, raises questions about possible problems or shortcomings with these audit materials' suitability or accessibility.

There were several possible reasons for the disagreement that were found. First, there might not be enough money set aside to buy audit resources, which would leave a shortage of supplies and tools. Secondly, one possible contributing cause could be the inefficient use or distribution of currently available resources. When resources are mismanaged, they may not be available where they are most needed. Thirdly, there could be a discrepancy between the resources offered and the auditors' actual needs. Finally, poor maintenance or quality of the available resources may also contribute to the auditors' discontent.

In contrast, there are a number of reasons why respondents agreed. Accessible and evenly dispersed supplies and equipment can be guaranteed by employing efficient resource management and allocation techniques. Sufficient money for the procurement and upkeep of audit resources can also enhance overall satisfaction. Ensuring that the auditors have the tools they need to carry out their jobs efficiently also depends critically on matching the resources offered to their particular demands.

In conclusion, even if a considerable portion of respondents are satisfied with the availability of audit materials and office supplies, there are still major disagreements that point to issues that need to be addressed. To increase the efficacy of taxation, it is imperative to address financial concerns, strengthen resource management, match resources to auditor needs, and uphold high standards for available resources are essential steps to enhance the effectiveness of tax audit practices at the East Addis Ababa small taxpayers branch office.

Nine respondents (13.8%) agreed that having skilled and experienced audit staff was important, 45 respondents (693.3%) disagreed or strongly disagreed, and the other 11 respondents (16.9%) were not sure they wanted to express their opinions.

The substantial difference in opinion regarding the value of having skilled and experienced audit personnel prompts worries about possible shortcomings in the degree of experience now present at the East Addis Ababa small taxpayers branch office. This broad consensus raises a number of underlying concerns that might require attention.

First, the audit team currently in place may be thought to lack certain qualifications or experience. The auditors' capacity to conduct efficient audits may be impacted if they don't have the necessary training or expertise. Secondly, there can be less chances for training and professional development. Having limited access to ongoing professional development might make it more difficult for auditors to stay current with changing audit procedures and tax legislation.

Furthermore, it could be challenging to find or keep experienced and qualified auditors. An audit team with lower experience levels may result from high turnover rates or difficulties in finding qualified candidates. Finally, there may be a discrepancy between the skills that current staff members possess and the skills required for effective tax audit programs. The

effectiveness of the audit process as a whole may be impacted if the current workforce lacks the necessary training and experience.

In conclusion, the results show how urgently the audit team at the East Addis Ababa small taxpayers branch office needs to be trained and experienced. Addressing inadequacies in training, expanding chances for career advancement, enhancing recruitment and retention tactics, and making sure employee competencies match the demands of effective tax audit programs are essential steps to enhance the overall effectiveness of the tax audit practice.

Regarding the question about carrying out an ongoing evaluation to raise the competence of staff members and auditors, ten respondents (15.4%) agreed, forty-two respondents (64.6%) disagreed or strongly disagreed, and thirteen respondents (20%) were unsure. The majority's disagreement raises the possibility of skepticism or doubts about the existence or efficiency of ongoing assessment procedures in the East Addis Ababa modest branch office for taxpayers. The hesitancy demonstrated by a significant segment of participants suggests that additional elucidation or communication is required about the procedures and advantages of ongoing evaluation in augmenting the competencies of personnel and auditors. Several reasons could contribute to this disagreement. Firstly, there might be a perceived lack of efficacy or transparency in the current ongoing assessment procedures. Respondents may feel that these evaluations do not effectively enhance skills or are not conducted transparently. Secondly, there may be limited ability or resources to implement comprehensive programs for ongoing assessment. Resource constraints could hinder the development and execution of robust evaluation programs. Lastly, opposition to change or hesitation in implementing new assessment techniques could also be a factor. Some respondents may be resistant to changes in evaluation methods or uncertain about their potential benefits.

In summary, while a minority agrees with the practice of ongoing evaluation, the majority's disagreement and the significant proportion of respondents who are unsure highlight a need for improved communication and potentially restructured evaluation processes. Addressing these concerns can help in enhancing the effectiveness of ongoing evaluations and, consequently, the competencies of staff members and auditors. In relation to An individual auditor completed audit cases on average once a year. Of the respondents, 40 (61.5%) said they agreed or strongly agreed, 13 (20%) said they disagreed or strongly disagreed, and the remaining 12 (18.5%) said they were unsure.

The majority of respondents appear to agree that an individual auditor's workload of finishing audit cases once a year is reasonable or normal. There are a few possible reasons for this agreement. First off, this impression could be influenced by adherence to industry standards or benchmarks for audit case completion rates. Auditors are likely to think the completion rate is appropriate if it meets set norms.

Second, respondents could think that enough time and money are set aside for comprehensive audits to be completed within a year. This idea backs up the idea that auditors may efficiently carry out their responsibilities without feeling pressured, guaranteeing the correctness and calibre of their job. Furthermore, there can be awareness of the significance of giving auditors enough time to complete thorough audits, as this is essential to preserving audit integrity.

The information gathered from open ended question confirm that though individual auditor finish their yearly assigned task, from the beginning the assignment of the task is insufficient. the plan to be achieved by auditors is too minimum compare to tax payers to be audited

In conclusion, the majority of respondents believe that it is reasonable for individual auditors to complete audit cases annually, but it is crucial to address the issues raised by the minority and open ended question respondents concern. To improve the general performance and satisfaction of the audit team at the East Addis Ababa small taxpayers branch office, it is imperative to make clear the expectations of the organization, allocate resources appropriately, and reorganize tasks and management systems.

The information gathered from open-ended questions indicates that the availability of computers, appropriate office layouts, cutting-edge technology, and competitive auditing salaries as the main resource constraints for branch offices. While it is not feasible or scientific to audit every taxpayer, the majority of prospective and noncompliant taxpayers need to be dealt with within a set amount of time. Better organizational structure and sufficient resources with comparison to the previous five years' state are goals for this MOR. Consequently, no small accomplishment has been noted. Nonetheless, the culture of tax payers who voluntarily pay taxes and conform to the law is still in its infancy. In order to address this, the organization needs enough audit materials. Although the plan provided to each individual auditor is covered promptly from the start, the plan is quite little on its own due to a lack of staff in comparison to branch office tax payers who pay more than twelve thousand. The branch's secondary data confirms that the tax audit's revenue contribution is a

meagre 10% of total revenue. In response, the interviewer stated that the federal inland tax administration level can refer to the tax audit manual for guidance. The good news is that, unlike in the past, all auditors throughout MOR are required to properly follow the handbook. It tries to be somewhat brief and compliant with tax laws. However, because auditors have varied analytical and comprehension difficulties, their applications for the identical circumstances vary from one auditor to another.

4.3.2 Tax Audit Selection Criteria

Tax auditors from the MOR Eastern Addis Ababa branch office were asked about this as well as their thoughts on the audit selection procedure and standards that the tax office employed. The table below shows the tax auditors' responses along with the selection criteria for tax audits that the branch uses.

Table 4.8 Tax audit selection criteria of eastern Addis Ababa revenue office

Item no	Statement	Strongly agree		agree		Undecided		Dis Agree		Strongly dis Agree	
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
1	Does the tax audit department have responsible audit team for selecting the audit cases?	22	33.8	37	56.9	6	9.2	0	0	0	0
2	Does tax audit case selection is supported by intelligence Input?	0	0	9	13.8	12	18.5	44	67.7	0	0
3	Does every tax payers at East A.A small tax payers branch office audited once in a year	0	0	0	0	0	0	21	32.3	44	67.7
4	Audit case selection is based on the availability of resource for tax audit	20	30.8	32	49.2	9	13.8	4	6.2	0	0
5	Audit case selection is based on taxpayer's high tax potential	3	4.6	16	23.1	7	10.8	37	56.9	3	4.6

Source: Compiled from census questionnaires, (2024)

Table 4.8 above lists the audit selection criteria that the revenue office employed. 59 (90.7%) of the respondents agreed or strongly agreed that having an accountable audit team choose the audit cases was a good idea. Six (9.3%) responders said they had no opinion.

The concept of having a responsible audit team pick audit cases is substantially supported, as evidenced by the overwhelming agreement among respondents. There are various reasons for this unanimity. First off, there's probably a lot of faith in the audit team's judgment and moral fibre to reach fair and impartial conclusions. Most likely, respondents think that a responsible audit team will make sure that audit cases are selected impartially and without bias.

Second, it is commonly known how crucial accountability is to preserving the objectivity and openness of the audit process. Maintaining the integrity of the audit process and making sure that every taxpayer is handled fairly under the auditing system is considered to require an accountable team. Furthermore, the advantages of employing a consistent and rigorous approach to case selection are probably known. By concentrating on high-risk regions and guaranteeing an equitable allocation of audit efforts, a methodical selection procedure can improve the efficacy and efficiency of audits.

Conclusively, the results show robust backing for the selection of audit cases by an accountable audit team, indicating confidence in their impartiality and the significance of accountability for an unbiased and transparent audit procedure. To improve the East Addis Ababa small taxpayers branch office's audit selection criteria's overall efficacy.

for question tax audit case selection is supported by intelligence Input The majority of respondents—44, or 67.7%—disagree 12(18.5%) agreed and 9(13.8%) respondents indicated that they were neutral .

The risk of doubt or ambiguity regarding the extent to which intelligence input supports the selection of tax audit cases is raised by the majority's disagreement. Given the substantial degree of disagreement, it is possible that respondents believe there are limitations or inadequacies in the way intelligence input is currently used to choose tax audit cases. More specifically, there might not have been enough intelligence input throughout the case selection process, raising questions regarding the efficacy of this approach. In addition, respondents may question the integrity or reliability of the data they have been provided, which is important when determining which cases to pursue.

In conclusion, the results show that most respondents had a considerable degree of mistrust regarding the use of intelligence input in choosing tax audit cases. To boost confidence and improve the efficacy of tax audit procedures at the East Addis Ababa small taxpayers branch

office, it is imperative to address perceived shortcomings, improve the quality and dependability of intelligence data, and increase transparency regarding the role of intelligence input in the audit process.

With regard to the question every tax payers at East A.A small tax payers branch office audited once in a year all 65(100%) of the respondent disagree or strongly disagree .

The agreement of the responders points to a number of underlying problems. First off, it's probably not feasible to perform annual audits for every taxpayer due to a lack of resources or capacity. Due to this constraint, audit resources must be prioritized according to risk assessment or other standards in order to guarantee that the most urgent cases are given the highest priority. The ability to perform annual audits may also be impacted by legal or procedural limitations that restrict how frequently individual taxpayers can be audited.

This unanimity of opinion is probably also influenced by the respondents' awareness of the practical challenges and inefficiencies involved in conducting annual audits on every taxpayer. They may realize that, considering the existing limits and the requirement for a more focused and strategic audit process, such an approach is not only unfeasible but also ineffective.

In conclusion, all respondents found it impracticable to conduct annual audits for each taxpayer at the East Addis Ababa small taxpayers branch office. To increase the efficacy and efficiency of the tax audit process in this situation, it is imperative to address resource restrictions, improve audit priority techniques, and comprehend legal and procedural limitations.

With regard to the question Audit case selection is based on the availability of resource for tax audit, the majority of respondents—52, or 80% agreed or strongly agreed 4(6.2%) disagree 9(13.8%) where neutral

The majority's high agreement points to a common belief that the selection of audit cases is heavily influenced by the availability of resources. This agreement probably results from a knowledge of the practical limitations brought about by a lack of resources, which can greatly affect an organization's ability to carry out audits. In order to maximize the effectiveness and efficiency of the auditing process, respondents might understand the need of prioritizing audit cases based on the resources at their disposal. It's also possible that the significance of

planning and resource allocation in guaranteeing the equitable and fair treatment of taxpayers is known.

In conclusion, addressing the concerns of the minority is significant even though the majority of respondents consider resource availability to be a critical consideration in audit case selection. The overall efficacy and fairness of the tax audit process at the East Addis Ababa small taxpayers branch office can be improved by emphasizing a balanced approach that takes into account both resource limitations and other important variables like risk assessment.

With regard to the question Audit case selection is based on taxpayer's high tax potential 40(61.5%) disagree and strongly disagree 19 (27.7%) agree and strongly agree the remaining 7(10.8%) were neutral

The majority's disagreement points to a noticeable lack of confidence in the notion that a taxpayer's high tax potential is the primary factor in selecting audit cases.

The majority of research indicates that the best course of action for any tax administration is to use and apply efficient audit selection criteria rather than auditing every taxpayer, as this is not recommended nor scientific. In this aspect, the respondents' response indicates that the branch status is optimal because auditing is implemented selectively with the pre-determined criteria.. Based on secondary data from the branch and an open-ended inquiry of tax officials responded to, The taxpayer's data, which comprised 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 almost 80% of the information used in the audit selections. 15% of the information gathered comes from third-party data, and 5% comes from intelligence input. The main aim of an intelligence department is detect and give concrete evidence of non compliant tax payers to be audited. however the branch office lacks an independent intelligence department. By focusing more on those sizable taxpayer offices, the intelligence department, which operates centrally at the head office level, distributes information for 12 branches, including east Addis Ababa. The department, which is centralized, lacks innovative technology, knowledgeable and efficient people resources, and material resources. Because of this, the data that is received from the head office is not that much sufficient for use as a major input

The authorities' interview further confirms that data from SIGTAS (the Standard Integrated Government Tax Administration System) was used for all case selection. Although employing a technology-based selection method is a positive development over the past several years, the lack of well-organized and clean data makes SIGTAS unreliable in terms of decision-making for suitable risk selection. According to Barretta and Ramachandran (2004), audit selection tactics vary from simple random selection to more complex rule-based selection, sophisticated statistical methodologies, 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 used to choose cases.

Consequently, the results of the current study did not align with the approaches suggested by Barretta and Ramachandran (2004), as the SIGTAS tax automation in Ethiopia did not provide complete backing for risk selection.

According to tax auditors' responses to questionnaires in table 4.8 above, the audit selection criteria are not efficient or scientific, and this outcome supports their claims. It primarily depends on the tax payers' own resources being available most of the time which is not reliable.

4.3.3 Tax Auditors capacity

Table 4.9 . Tax Auditors capacity

Item no	statement	Strongly agree		agree		Undecided		Dis Agree		Strongly dis Agree	
		Freq	%	Fre q	%	Fre q	%	Freq	%	Freq	%
1	Appropriate and skilled officers are assigned during tax audit.	3	4.6	21	32.3	2	3.1	25	38.5	14	21.5
2	Tax audit manual enhance your capacity during audit	4	6.2	12	18.5	4	6.2	26	40	19	29.2
3	Tax auditors take sufficient training on audit in different business sectors	3	4.6	4	6.2	4	6.2	27	41.5	27	41.5
4	The audit manual provides adequate assurance for Quality Standards	3	4.6	3	4.6	2	3.1	35	53.8	22	33.8
5	Auditors have the capacity of analysing the financial Statement	2	3.1	2	3.1	3	4.6	40	61.5	18	27.7

Source: Compiled from census questionnaires, (2024)

From table 4.9 response to the question, " Appropriate and skilled officers are assigned during tax audit.." The majority of respondents—39, or 60%— disagreed or strongly disagreed, followed by 24, or 36.9%, agreed or strongly agreed, and the remaining 2, or 3.1%, were neutral, It appears that there is a lack of trust in the Ministry's capacity to designate suitably qualified personnel for tax audits based on the majority disagreement. This is a worrying discovery.

This suggests that tax audit procedures may be inefficient, which could result in erroneous assessments or lost chances to recover money.

This impression may be influenced by a lack of efficient performance review systems, a heavy workload that causes employee burnout, or a lack of training chances.

For question . Tax audit manual enhance your capacity during audit the majority of respondents 45(69%)disagreed and strongly disagreed ,16(24.6%) agree and strongly agree the remaining 4(6.4%)were neutral

It appears from the majority disagreement that auditors believe the current tax audit manual does not improve their abilities. This calls into question the manual's suitability and applicability..

Inconsistent audit procedures could result from a lack of trust in the handbook, which could also damage the validity of audit results.

This impression may be influenced by antiquated or badly organized manuals, a lack of instruction on how to use them, or a mismatch between the requirements of the manual and real-world audit requirements.

For question . Tax auditors take sufficient training on audit in different business sectors 54(83%)disagreed and strongly disagreed ,7(10.6%) agree and strongly agree the remaining 4(6.4%)were neutral

The resounding disagreement points to what may be considered inadequate training for tax auditors conducting audits in a range of company sectors.

Inadequate training may cause audit evaluations to be inaccurate, particularly in complicated industries, and may make it more difficult for the Ministry to spot instances of non-compliance or tax fraud.

This impression may be influenced by a lack of training resources, general training curricula that aren't adapted to the demands of a particular business, or difficulties obtaining industry knowledge for training needs.

For question . The audit manual provides adequate assurance for Quality Standards 57(87.6%)disagreed and strongly disagreed ,6(9.1%) agree and strongly agree the remaining 2(3.1%)were neutral

The overwhelming disagreement among the majority shows a lack of trust in the audit manual's capacity to uphold standards of quality during tax audits.

Insufficient guarantee for quality standards may diminish trust in the tax administration's procedures and the validity of audit results.

This impression may be influenced by the manual's poorly stated quality standards, the ambiguity of audit methods, or the absence of strong enforcement measures to guarantee standard compliance.

Regarding the tax auditors' capacity of analysing the financial Statement, 58 respondents (89.2%) indicated that they disagreed and strongly disagreed whereas 4(6.2%) respondents indicated that they agreed and strongly agreed 3(4.6%) respondents remained neutral

The resounding disagreement points to auditors' alleged inability to analyse financial statements, a critical component of tax audits.

Studies may have demonstrated the value of financial statement analysis expertise in identifying anomalies or disparities in tax filings.

Inadequate ability to analyse financial statements may jeopardize the accuracy of audit findings and may lead to lost chances to collect money.

This impression may be influenced by inadequate instruction in financial statement analysis methods, a lack of access to pertinent financial data, or the intricacy of comprehending financial activities.

To sum up, the results point to a number of issues with the tax audit procedures used by the East Addis Ababa Small Taxpayers Branch Office of the Ethiopian Ministry of Revenue. These include alleged deficiencies in auditor capability, audit manuals, staffing, and training, all of which may have a big impact on revenue collection and tax compliance. To address these issues and improve the efficiency and legitimacy of tax audits, adjustments may need to be made to personnel policies, training curricula, and audit methods

The majority of respondents, in general, disapproved of the auditors' comprehension, skill, experience, and competency at the branch office. and tax auditor training, as well as the audit manual's understanding

Furthermore, in answer to open-ended questions about the competency and ability of tax auditors, characterized their findings as follows: "There is skill gap and adequacy gap in the branch tax auditors' staff Because senior tax auditors turnover are so high, there is a problem with knowledge transfer and experience sharing in the day-to-day auditing operations at work, even if the tax office hires new graduates with a bachelor's degree in business-related disciplines like accounting and finance. In addition, the number of tax auditors and taxpayers in the branch is out of proportion.

Owing to their extensive workload, tax auditors could miss chances or identify compliance issues inaccuracies. It is difficult to get specialized, case-based training on tax audits from highly trained teachers for longer periods of time, coupled with evaluation after training, because the revenue authority's training program focuses primarily on tax laws and principles. The extensive discussion with tax auditors regarding the hiring and training of audit personnel found that the Revenue Authority hires fewer or no experienced audit staff compared to experienced auditors. Tax laws, regulations, guidelines, and manuals are difficult to comprehend and interpret.

Furthermore, less experienced auditors require more time to become accustomed to the system and complete audit tasks efficiently because auditing requires specialized knowledge in economics, statistics, communication, marketing, and research and analysis. Based on their degree of education and cumulative grade point average, MOR hires tax auditors and investigators (CGPA). Additionally, the interviewees mentioned that it is better if an applicant had prior audit-related work experience and that all hired auditors should act morally. Furthermore, it is mandatory for all prospective workers to undergo training on government policies and initiatives, MOR's overall aims and structure, and tax rules and regulations at the time of recruiting. The tax auditors' interview disclosed the lack of a well-established model for conducting ongoing competency assessments, as well as the absence of any mechanism or person to analyze tax audit performance and enhance overall tax administration and audit quality. Furthermore, the interviewer claims that there is insufficient accountability for auditors who perform to the best of their abilities. The Ministry of Revenue's periodic evaluation states that tax auditing is not operating at its highest potential and that a major obstacle is a shortage of skilled and experienced human resources. The system was therefore unable to bridge the skills gap. This result was in line with tax auditors' answers to the questionnaires in Table 4.9 above, which revealed gaps in their knowledge, proficiency, and ability to obtain training from branch offices.

4.3.4 Application of information technology on tax Auditing

Table 4.10 Question regarding application of automation in tax auditing

no	Item	Strongly agree		agree		Undecided		Dis Agree		Strongly dis Agree	
		Fre q	%	Freq	%	Fre q	%	Fre q	%	Fre q	%
1	The application of tax automation in auditing improve revenue collection and compliance	32	49.2	33	508	0	0	0	0	0	0
2	The educational level of existing auditors is enough to deal with tax automation software for auditing purpose	0	0	0	0	8	12.3	29	44.6	28	43.1
3	By Applying tax automation in tax audit process the branch increases service quality	0	0	6	9.2	6	9.2	34	52.3	19	29.2

Source: Compiled from census questionnaires, (2024)

As it can be seen from table , the respondents were asked The application of tax automation in auditing improve revenue collection and compliance , all the respondents 65(100%) agree and strongly agree with the statement

Respondents strongly believe that applying tax automation in auditing can enhance revenue collection and compliance, as seen by their unanimity in this regard. This implies a high degree of assurance on the possible advantages of automation.

Based on the broad consensus, the branch may want to consider investing in tax automation as a strategic approach to boost compliance rates and strengthen its revenue collection capacities.

Utilizing tax automation software for auditing purpose in the past, being informed of market developments, or realizing the efficiency benefits of automation could all be factors.

for question The educational level of existing auditors is enough to deal with tax automation software for auditing purpose 57(87.6%) disagree and strongly disagree the remaining 8(12.4%) were neutral

The majority disagreement points to a belief among respondents that current auditors' educational backgrounds would not be adequate to handle tax automation technologies. This raises questions about how well-prepared the workforce is to adjust to changes in technology.

The effective deployment and application of tax automation technologies may be impeded by inadequate educational preparation, which could restrict the tools' influence on revenue collection and compliance.

This perception may be influenced by out dated school curricula that neglect to address evolving technology, a lack of specialist training on tax automation software, or a discrepancy between the skill set needed for automation and educational qualifications

For question by applying tax automation for audit purpose the branch increases service quality 53(81.5%) disagree and strongly disagree 6(9.2%) agree the remaining 6(9.2%) were neutral

The majority disagreement points to respondents' doubts about tax automation's capacity to improve branch service quality. This suggests scepticism over automation's ability to provide better customer experiences.

Tax automation may fall short of expectations and might even irritate taxpayers if it is thought to be a low-quality service.

This impression may be influenced by difficulties in putting user-friendly automation systems into place, worries about data security or system dependability, or a lack of connection with current service procedures.

In conclusion, there is broad consensus regarding the potential advantages of apply tax automation for compliance and revenue collection, but there are also questions regarding the ability of auditors to use automation tools successfully and uncertainties regarding the influence of automation on service quality. In order to address these issues, it could be necessary to implement focused training initiatives, choose automation solutions carefully, and concentrate on incorporating automation into current service procedures to optimize its advantages.

the open-ended question said that they had used the SIGTAS (Standard Integrated Government Tax Administration System) for the previous twenty years or more. If the system had been properly implemented for auditing with all possible effort, it would have played an indispensable role in advancing contemporary tax administration and combating corruption. The application is currently in its infancy 50% of its 24 modules are not used, despite this. The lack of highly qualified staff in this field in the branch and MOR, along with the lack of higher officials' on-going oversight, are the main causes of this. Although it is occasionally the case that head office trains trainers, a major issue is also the absence of a knowledge transfer strategy. When individuals with somewhat more experience leave the company, there are serious network issues that make it difficult to operate the system successfully. . Due to a lack of knowledge, the data entered into the system is inaccurate, leading to erroneous results and service irregularities. Rather of making full use of the technology, the branch and MOR itself spent the majority of their time cleaning up the data. Due to the untrustworthy data, auditors were reluctant to utilize the system, and there was a lot of push back. The primary purpose of the system is to prevent corruption, hence some auditors resist in order to engage in fraudulent behaviour. In certain situations, there is an incident where the tax law and the system do not coincide, leading to the court's rejection. Additionally, respondents recommend using more advanced technology in order to stay up to date with the globe, as SIGTAS counts went back too far.

The open-ended answers illuminated important organizational issues and resource limitations in the Ethiopian Ministry of Revenue's tax auditing methodology. In order to enable successful and efficient tax audits, respondents emphasized the significance of having enough resources, such as computers, office designs, technology, and competitive auditing salaries. This is consistent with survey results expressing discontent with the availability of supplies and office equipment, showing an urgent need to close these resource gaps.

Moreover, the need for improved organizational structures and adequate resources is emphasized by the emphasis on handling potential and noncompliant taxpayers within a certain timeframe. The disparity between the number of auditors and the taxpayer base highlights the necessity of personnel modifications and strategic resource allocation to successfully match the workload. The potential for revenue optimization through enhanced

audit methods and taxpayer compliance programs is highlighted by the fact that tax audit revenue accounts for only 10% of overall income.

The reference to a tax audit handbook and the mandate that auditors follow it are encouraging developments in terms of standardization and tax law compliance. But the manual's varied implementations because of auditors' analytical and comprehension shortcomings highlight how crucial it is to provide on going training and support systems in order to guarantee accurate and consistent audit procedures everywhere.

To summarize, the Ethiopian Ministry of Revenue must strengthen training and support systems, optimize organizational structures, and manage resource constraints in order to increase the efficacy and efficiency of its tax audit process. These initiatives are critical to generating more money, encouraging voluntary taxpayer compliance, and ultimately accomplishing the organization's objectives.

CHAPTER FIVE

SUMMARY, FINDINGS AND RECOMMENDATIONS

5.1. Introduction

This chapter presents the summary , major findings, the conclusions and finally, recommendations and suggestions based on the findings of the study.

5.2 Summary

Tax can be defined as a financial charge or other levy imposed on an individual or a legal entity by a state or a functional equivalent of a state. Taxes could also be imposed by a sub national entity. Taxes consist of direct tax or indirect tax, and may be paid in money. A tax may be defined as a “pecuniary burden laid upon individuals or property to support the government payment exacted by legislative authority”. “A tax” is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority” and is “any contribution imposed by government whether under the name of toll, tribute, duty, custom, excise, subsidy, aid supply, or other name.

the main agenda behind taxation is a collection of revenue for government expenditures, studies explained above the usefulness of tax audit for effective revenue collection.

Since tax audit is a professional endeavour, it should be planned and executed appropriately.

One of the methods to do this is developing all-encompassing tax audit program. A well-managed audit program plays a major role in managing compliance. An effective audit program will have significantly wider impacts than just raising revenue directly from audit activities The main objective of the study is to investigate the tax audit practice at the ministry of revenue taking the eastern Addis Ababa Branch Office of the Authority as a case. Due to the specialized nature of the tax audit practice, data gathering was based on both qualitative and quantitative case study approaches in order to obtain responses that fully capture the tax audit practice. The Ministry of Revenue's Eastern Addis Ababa Branch Office served as the study's main focus. Nevertheless, it was also discovered that there are flaws in the ministry's tax audit procedure that need to be fixed. A few areas where the authority needs to put in a lot of effort include limited trained human power, material resources, on-going assessment and training to increase the capability or competency of tax auditors, non-scientific tax audit selection criteria, and the use of advanced technology.

5.3. Conclusion

One important factor in reducing the errors related to taxation practices is tax audit. A tax audit is when the appropriate tax authorities look over a person's or an organization's tax return to make sure all applicable state and federal tax laws and regulations are being followed. The tax audit at the MOR Eastern Branch has several inadequacies in terms of tax audit practice, which in turn affects its contribution to revenue collection, according to the results of the data analysis and information gathered from respondents.

At the federal inland tax administration level, the tax audit manual serves as a guide, although auditors' applications of it differ because of issues with comprehension and analysis.

The appropriateness of audit resources—including personnel availability, material and equipment supplies, audit staff credentials and experience, on-going evaluation procedures, cutting-edge technology, and employee retention strategies—was questioned. Though considered an improvement, the use of SIGTAS (Standard Integrated Government Tax Administration System) for case selection lacks clear, well-organized data, which makes decisions unreliable. According to the study's findings, the audit selection criteria are mostly dependent on the taxpayers' availability of resources, making them less effective and scientific. Tax automation is seen as a useful tool, but its implementation is hampered by issues with resistance, insufficient staffing, inadequate training, and poor data quality. Tax auditors' competency and capacity are significantly lacking, and their knowledge, experience, training, and understanding are all questioned. The application of SIGTAS (Standard Integrated Government Tax Administration System) is still in the early stages, with only 50% of its modules being applied.

The system's limited utilization is a result of several factors, including a lack of information transfer techniques, inadequate follow-up by senior officials, and a lack of workers with the necessary training in tax automation.

The system's ability to be used effectively and efficiently is hampered by network and data quality difficulties.

The system's ability to fight corruption is shown in the resistance auditors exhibit, including their participation in fraudulent actions. In some cases, inconsistencies between the system and tax laws have led to court rejections.

Respondents suggest the adoption of more advanced technology to stay up-to-date with global standards.

5.4 Recommendation

5.4.1 Enhance Tax Auditor Competency:

5.4.1.1 Frequent, thorough training

Create and implement a structured tax auditor training program with modules on audit procedures, industry-specific information, and financial statement analysis.

Collaborate with educational establishments and associations to offer accredited training programs.

5.4.1.2 Programs for Knowledge Transfer:

Create mentorship programs so that seasoned auditors can instruct and impart excellent practices to less seasoned auditors.

Plan frequent lectures and workshops to promote ongoing professional growth.

5.4.1.3 Evaluation of Performance and Assistance:

To find skill shortages, implement a methodical performance evaluation procedure.

Provide possibilities for professional growth and specialized coaching in accordance with the findings of the evaluation.

5.4.1.4 Environment of Collaboration:

Establish discussion boards and forums where auditors can interact with subject matter experts and exchange ideas and experiences.

To encourage information sharing and peer learning, make use of collaborative technologies and platforms.

5.4.1.5 Mechanisms of Feedback:

Establish feedback mechanisms so that auditors and taxpayers can offer suggestions for training initiatives and audit procedures.

Utilize input to make training materials and auditing processes better every time.

5.4.2 Ensure Sufficient Resources

5.4.2.1 Ideal Resource Distribution:

Create criteria based on the experience and skill of auditors to assign work for audits.

To more precisely estimate and prepare for resource requirements, use data analytics.

5.4.2.2 Sufficient Manpower and Technology:

Make sure you have enough auditors on staff by adding more if needed.

To increase audit accuracy and efficiency, spend money on cutting-edge technologies and instruments.

5.4.2.3 Enhanced Cooperation

Establish frequent channels of communication to address resource demands and limits between auditors and tax authorities.

Form a resource management team to supervise and enhance the distribution of resources.

5.4.3 Strengthen the Use of Tax Automation for Audit Objectives

5.4.3.1 Comprehensive Tax Automation Training:

Give auditors practical training so they may learn how to use tax automation software.

Provide auditors with ongoing training opportunities to stay informed about new features and developments in automated technologies.

5.4.3.2 Committed Assistance Group:

Establish a specialist team to oversee the setup and upkeep of systems for tax automation.

Make sure the group is accessible to offer technical assistance and solve problems as soon as they arise.

5.4.3.3 Solve problems with the network and data quality:

Conduct routine audits of the IT infrastructure in order to find and fix network issues.

Use data quality management techniques to guarantee the dependability and correctness of the data used in tax audits.

5.4.3.4 Updates to the system continuously:

Update tax automation systems frequently to take advantage of changes in tax laws and regulations.

Work together with software vendors to make sure systems adhere to best practices and international standards.

5.4.4 Create Clear and Transparent selection criteria for Audit Cases

5.4.4.1 Explicit Selection Criteria

Establish precise and impartial standards for choosing audit cases that take historical compliance, risk assessment, and prospective tax evasion into account.

To improve openness, record and disseminate these standards.

5.4.4.2 Regular Use:

Establish standardized processes to guarantee that the selection criteria are applied consistently to every audit case.

Reduce the amount of human bias in the selection process by using automated systems.

5.4.4.3 Frequent Evaluation and Updates:

Form a review committee to assess and revise the selection criteria on a regular basis in light of changing business conditions and new hazards.

Get feedback from all relevant parties, including taxpayers, to improve the selection criteria.

5.4.4.4 Transparent Interaction with Taxpayers:

Give taxpayers thorough instructions and explanations regarding the audit selection procedure.

Run public awareness efforts to increase taxpayers' comprehension and trust.

Tax auditors' competency may be strengthened, resource adequacy can be reinforced, tax automation application can be improved, and transparent audit case selection criteria can be produced by adhering to these comprehensive and practical guidelines. All of these actions taken together will result in higher tax compliance, better revenue collection, and more effective and efficient tax audit procedures.

5.5 Areas of Future Study

The study's scope does not adequately address the subject of how important tax audit practices are to raising government revenue in MOR. Therefore, it is crucial to carry out additional research in this area. As a result, the researcher suggests more research on the following subjects.

- The significance of tax payer compliance in increasing government revenue.
- The impact of tax evasion and avoidance in reducing government revenue.
- The importance of continuously raising public understanding about taxes.

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Appendix A: Questionnaire



Dear Respondent,

My name is Huda Ali Mussa. I am studying for my MSC in Accounting and Finance at Addis Ababa University. Currently, I am doing my thesis research on the title “**assessment of of tax audit practice: evidence from ministry of revenue east Addis Ababa small tax payers’ branch office**”.

The aim of the research is to assess **tax audit practice** with evidence from **East Addis Ababa small tax payers’ branch office**. To supplement the data, the researcher seeks to gather relevant information from all tax auditors using self-administered questionnaire.

Participation in this research is completely voluntary. I would promise that all information you provide would be strictly confidential.

1. Questions regarding tax audit resources

No	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		5	4	3	2	1
1	East A.A small tax payers branch office has enough audit staff to perform auditing to all selecting taxpayers?					
2	Does East A.A small tax payers branch office have enough audit resource materials for Audit program?					
	East A.A small tax payers branch office has enough qualified and experienced audit staff to perform tax audit program					
	Does East A.A small tax payers branch office perform a continuous assessment to improve the capability of auditors and staff resources					
	An individual auditor averagely accomplished audit cases assigned a year					

Table 1. Questions regarding tax audit resources

Please, do you have any ideas, opinions and suggestions that have not been included in the aforementioned questions?

2. Questions regarding audit case selection methods

No	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		5	4	3	2	1
1	Does the tax audit department have responsible audit team for selecting the audit cases?					
2	Does tax audit case selection is supported by intelligence Input?					
3	Does every tax payers at East A.A small tax payers branch office audited once in a year					
4	Audit case selection is based on the availability of resource for tax audit					
5	Audit case selection is based on taxpayer's high tax potential					

Table 2 Questions regarding audit case selection methods

Please, do you have any ideas, opinions and suggestions regarding case selection criteria?

3. Questions regarding capacity of tax auditors

No	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		5	4	3	2	1
	Appropriate and skilled officers are assigned during tax audit.					
	Tax audit manual enhance your capacity during audit					
	Tax auditors take sufficient training on audit in different business sectors					
	The audit manual provides adequate assurance for Quality Standards					
	Auditors have the capacity of analyzing the financial Statement					

Table 3 Questions regarding capacity of tax auditors

Please, do you have any ideas, opinions and suggestions that have not been included in the aforementioned questions?

4. Questions regarding Tax Automation

No	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		5	4	3	2	1
1	The application of tax automation improves revenue collection					
2	Applying tax automation decreases tax compliance					
3	The educational level of existing auditors is enough to deal with tax automation software					
4	Applying tax automation increases service quality in the branch					

Table 4 Questions regarding Tax Automation

Please, do you have any ideas, opinions and suggestions that have not been included in the aforementioned questions?
