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Challenges of Tax Audit Administration in Addis Ababa: evidence from Small Tax payer Branches

BY

Mekonnen Belay

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Challenges of tax audit adminstration in Addis Ababa: evidence from small tax payer branches

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By

Mekonnen belay

MBAAF/0357/08

Department of Accounting and Finance School of Business Administration Saint Mary University

June 2017

Addis Ababa, Ethiopia

APPROVED BY BOARD OF EXAMINERS

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Chairperson (Graduate Committee) Signature

Abrham G/giorgis ______________________________

Advisor Signature

________________________ _____________________

Examiner Signature

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Examiner Signature

Statement of declaration

I have carried out independently a thesis on “challenges of tax audit adminstration in Addis Ababa: evidence from small tax payer brances” in partial fulfillment of the requirements of the MSc Degree in Accounting and Finance with the constructive guidance and support of the research 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.

Mekonnen Belay

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Addis Ababa Ethiopia

Abstract

This study examines chllenges of tax audit adminstration in Addis Ababa evidence from small tax payer branches, and investigates key problems in tax audit operation regarding the appropriateness of audit type used, verification of tax payers income, framework of regulation, audit rate, audit case selection methodes, evaluation and performance measurement, audit examination techniques used, and the experience and capability of audit staff resources. The study adopts mixed method approach in order to achieve the research objectives and to answer research questions. Specifically, the techniques used in the study include survey with tax auditors, semi structure interviews with tax audit head and team leaders and documentary analysis. With these research methods, the results of the study reveal that tax audit program faced diferent challenges and problems which hinder the effectivness of tax audit. The study also shows low audit coverage, the absence of compliance risk-based audit case selection strategy, scarcity of audit resources, tax auditors in particular, lack of appropritate monitoring and evaluation methods and absence of proficient and experienced tax auditors. In the end, the study forwards the possible measures to be taken by the Addis Ababa small tax payer branches to mitigate problems in tax audit operation.

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Table of contents **pages**

Chapter 3 - Research Methodology

Chapter 4 - Data analysis and discussion

Chapter five- Summary, conclusion and recommendation

List of tables **pages**

Lists of figure

Acronyms

A: Agree

ASB: Auditing Standards Board

AASTPB: Addis Ababa small tax payer branches

AATASD: Addis Ababa Tax Audit Suporting Dairectorete

DA: Disagree

ERCA: Ethiopian revenue and customs authority

GDP: Gross Domestic product

MOR: Minstry of Revenue

N: Neutral

OECD: organization for economic cooperation and development

SA: strongly agree

SD: strongly disagree

SPSS: Statistical package for social science

VAT: Value Aded Tax

Chapter one

Introduction

1.1 Background of the study

"Tax audit administration" means: the administration, management, conduct, direction, and supervision of the execution and application of the tax audit laws or related statutes (or equivalent laws and statutes) and tax audit conventions. Tax Audits are a complex undertaking and, during the whole audit process, the tax audit function must aim to have a system in place that enables both headquarters and district/field office managers to be able to control and monitor each of their responsibilities.The tax audit function should have three elements as follows: 1) taxpayers are selected for audit during audit planning; 2) audits are conducted; and 3) the quality of audits is continually monitored. The tax administration has the flexibility to expand or contract the scope of audit as it deems necessary, according to findings and based on potential of the audit case to produce results (Lethbridge, 2013).

Many developing and transitional countries audit performance is weak aspect of tax administration (Ebrill, 2001). Several developing countries do not yet have effective audit programs due to; insufficient numbers of the required highly skilled and appropriately paid audit practitioners, absence of a sound institutional audit practice, illegal cooperation between taxpayers and auditors, lack of clear political support for the tax administration, and the deficiency of an appropriate legal and judicial environment. Additionally, these countries have a tendency to offset weak tax audit by adopting complex procedures, such as increased filing requirements and massive cross-checking. This, in turn, might result administrative difficulties and increase the compliance cost of taxpayers (Hellenrstein, 2005). Developing countries audit performance is also poor aspect of VAT administration. The evidence is that several of the developing countries which adopted the VAT in the last 10 – 15 years do not yet have effective audit programs. And, for those that do have some elements of such a program, it is often dominated by a pre-refund verification. Without effective audits, VAT compliance deteriorates and the credibility of tax administration suffers. Strengthening audit is thus a key challenge, particularly in developing countries (MOR, 2004).

Regarding tax collection, many developing countries face difficulties for a well functioning tax administration, especially with respect to identifying and administering those citizens and firms that are liable to tax payments.

The lack of sufficient capacities in tax administrations reduce the probability of detection that again influences the decision of a taxpayer as to whether evade or not. These factors can be summarized as resulting from insufficiencies in the administration and collection of taxes as well as weak capacity in auditing and monitoring tax payments which limit the possibility to detect and prosecute violators (GIZ, 2010).

Revenue bodies establish a clear communications strategy at the programme level (though not specifically for audit alone), as crucial to the effective management of compliance and to enhancing the deterrent effect of audit and other compliance activity. Measurement criteria for auditor performance include numbers of cases worked and casework quality. Yield is not universally used as a performance indicator. Some administrations are deliberately moving away from yield-based targets to focus more on targets based on quality (OECD, 2006).

There is tax evasion and a gap between tax reported by taxpayers and actual taxable income. Tax reported by the taxpayer is less than the tax payable under the law. Increasing operating expenses, exaggerating non –VAT sale, incorporating un-related expenses to business are the reasons for decreasing taxable income. The report also shows that the Revenue Authority collects less revenue from business profit tax (63%) compared with the plan. This is due to lack of awareness about taxes by business men, low tax collection and administration system which leads to tax evasion and tax fraud and in effective tax audit practices (ERCA, 2013).

Therefore, this research was aimed to assess the challenges of tax audit adminstration in Addiss Ababa. The study adopted mixed method approach in order to achieve the research objectives and to answer research questions. Specifically, the techniques used in the study include survey with tax auditors, semi structured interviews with tax officials and documentary analysis.

1.2 Statement of the problem

Developing countries are characterized by tax structures being not in line with international standards, by lack of tax policy management, low compliance levels and inappropriate capacities in tax administration.

Under inadequate tax administration including insufficient and ineffective audit program, the potential amount of tax revenue in developing and transitional countries has not been collected in an efficient and equitable manner (Edmiston and Bird, 2004). There are a number of challenges regarding to its operation and administration that are not yet resolved. Weak tax administration makes the tax system unfair in that honest tax payers would bear heavier and disproportional burden. It, in turn, may have impact on the efficiency of tax operation, and also may encourage businesses to work in the illegal economy. As a result, tax evasion and tax avoidance in developing countries are exists like the low ability of tax administration and fiscal courts to enforce tax liabilities. These factors can be summarized as resulting from insufficiencies in the administration and collection of taxes as well as weak capacity in auditing and monitoring tax payments which limit the possibility to detect and prosecute violators (GTZ, 2010).

Low-income countries typically collect taxes of between 10 to 20 percent of GDP, while the average for high-income countries is more like 40 percent (Besley and Persson, 2016). Today's tax agencies typically lose 10–15 percent of total revenues to tax evasion and other types of noncompliance tax payers. In Ethiopia, total tax revenue performance has been relatively poor (McKinley and Kyrili, 2009). According to International Monetary Fund countries report in 2016 Tax revenue (% of GDP) in Ethiopia was 12.5% in 2013/2014, 13.4% in 2014/2015, and 13.5% in 2015/2016. In order to avoid the tax loss, many agencies continue to rely on audit selection, tax collection and enforcement methods they know to be outdated (Brown and Robert, 2003). The audit selection can be based on risk scoring criteria. The risk-based audit selection system is not possible without automation, if risk is to be calculated for all taxpayers. But developing tax administrations do not have the available information – both electronic information from tax returns and historical information on successful audits – to do more than a very simple risk analysis. More emphasis is placed on checking arithmetic accuracy or looking for technical bookkeeping errors that produce fines or penalties. This produces the taxpayer views the Inspector as nothing more than a clerk who understands little of the businesses processes of the activity (Lethbridge, 2013).

Slemrod (2000) noted that tax audit is one of the most effective policies to prevent tax evasion behaviour. One factor that significantly contributes to tax evasion is lack of intensive audits and absence of predetermined audit criteria. Also, the low level of computerization in the ERCA encourages evasion.

These means that some tax procedures have to be conducted manually, making it harder to detect evasion (ERCA, 2010).

Previous studies (Riahi-Belkaoiu, 2004; Daniel, 2011; Richard, 2008; Ewing & Elliott, 2014; Allingham and Sandmo, 1972; Alm, 2014; Gebeyehu, 2008; Bibiso, 2014; Ayalew, 2014; Abera 2016; Mihret, 2011; Alamirew, 2016) studied on the area of tax audit. But from these (Bibiso, 2014; Abera, 2016; and Mihret, 2011) are closly related to this study.

Ewing & Elliott (2014) studied Tax Audit Issues Affecting California Corporate Taxpayers. The study found there are four areas that the most common audit issues affecting corporations: (1) Cost of Performance and Sourcing of Intangible Sales; (2) Sales Factor and Gross Receipts; (3) Abusive Tax Shelters; and (4) Credits. Daniel (2011) studied the effects of tax audit on revenue collection a case study of Keniya Revenue Authority. The study found that Tax audit has postive effect on revenue collection. Alamirew (2016) studied the impact of tax audit on tax compliance in Ethiopia, at federal level. The study found a strong relationship between the probability of audit detection and the level of tax compliance. Bibiso (2014) studied on Assessment of tax audit practice: the case of hawassa city adminstration. The result revealed that the Revenue Authority of Hawassa city administration extensively use comprehensive types of audit. Due to this the audit coverage of the revenue authority was small, cases were selected based on associated risk but not used the standard risk identification criteria as of BPR. Abera (2016) studied investigate factors affecting tax audit effectiveness on large tax payer's office. The study found no statistical relationship between auditee attributes and tax audit effectiveness. However, the Tax Audit Effectiveness is highly affected by audit quality of the department, managements support and the organizations independence. While as auditors perception it doesn't be affected by organizational setting and auditees attribute. Mihiret (2011) studied tax audit practice in Ethiopia (the case of federal government) and investigated key problems in tax audit operation regarding the appropriateness of audit type used, audit rate, base of audit case selection methods and audit examination techniques used, and the experience and capability of audit staff resources. The results of the study reveal that tax audit program remains undeveloped with slight range of tax audit activities performed targeting aptly specific risks. The tax audit program is a toddler tool in improving voluntary compliance and increasing future revenue performance through educating and helping taxpayers to understand their tax obligations. The study also shows low audit coverage, the absence of compliance risk-based audit case selection strategy, scarcity of audit resources, tax auditors in particular, and absence of proficient and experienced tax auditors.

However the issues related to formal statements of taxpayers rights and obligations in the audit context, audit outcome measures, and use of indirect methods to verify income of taxpayers yet to be studied.

More over, the issues related to methods used in selecting taxpayers for audit, institutional forces (regulatory regime, standard setting mechanisms and peer reviews), planning, monitoring and evaluation of tax audit, auditor's intiative and experience sharings are untouched tax audit attributes. Therefore, this research intended to assess challenges of tax audit adminstration in Adiss Ababa small tax payer branches.

1.3 Research Questions

The studies were giving an introduction that leads in to the research questions:

1. What are the existing performances of Tax Audit in the study area?

2. Does audit case selection methods, audit examination and audit techniques used in the study area appropriate?

3. What are the major challenges in the application of tax audit in Addis Ababa 10 small tax payer branches?

1.4 Objectives of the Study

1.4.1 The General Objective

The main purpose of the study is to assess the challenges of Tax audit administration in Addis Ababa small taxpayer branchs.

1.4.2 Specific Objectives

The studies were giving an introduction that leads to cover specific objectives:

1. To evaluate the existing performance of tax audit program of small taxpayer branch.
2. To assess audit case selection methods, audit examination and audit techniques used in the study area.

3. To assess the challenges in the application of tax audit in Addis Ababa small tax payer branches.

1.5 Significance of the Study

The study will helps identifying the existing challenges and expected to indicate the strategic intervention areas that might improve the audit practice, and will show those areas that need corrective measures to improve the tax administration. The study will increase taxpayer compliance with record keeping, filing and payment obligations, as well as movements in reported tax subsequent to audit activities.it will reduce the tax evasion and avoidance by improving tax audit adminstration of the branches as a result government tax revenue will be increased. It helps also tax policy makers to make use of out puts of the study in addressing the challengers of tax audit adminstration by the revenue office. In addition, it helps the revenue office tax auditor's to know their role in the tax system. Moreover, it may serve as a source of reference and give some highlights for others who would like to know more about the issue and interested in undertaking further and detail studies in challenges of tax audit adminstration as a research title and on the other branches as well. In addition the study will provide information related with tax audit practice and its challenges for different stakeholders such as government and the society.

1.6 Scope of the Study

The study focus on assessing the challenges of Tax audit administration in Addis Ababa small taxpayer branchs, because any one can't be conducted any research in the study area. In adition the research was focused on tax audit practices in the branch office, the tax audit functions to tackle evasions and avoidance, to improve the compliance level of taxpayers, examine the proficiency and experience of tax auditors in the branch offices, verification of tax payer's income, regulatory status and audit techiniques. Due to lack of documented secondary data and inorder to manage the data the researcher collect four consecutive years (2006-2009) data which related to audit coverage and revenue collection in Addis Ababa 10 small tax payer branchs.

1.7 limitation of the study

The studies were used non probablity sampling techniques of convinence sampling. In case of Non probablity sampling Unknown proportion of the entire population is not included in the sample group i.e. lack of representation of the entire population, Lower level of generalization of research findings compared to probability sampling and Difficulties in estimating sampling variability and identifying possible bias (Saunders, 2012). The Tax functions (tax planning, tax defense, tax compliance, tax accounting and reporting), faces significant challenges in documentation and records management. Important documents and supporting workpapers stored inadequately organized (Schofield, 2016). Therefore, lack of documented data and the use of non probablity sampling may have an effect on the result of the study.

1.8 Organization of the study

The research was structured in five chapters. The first chapter consists of back ground of the study, statement of the problem, objectives of the study, research questions, and significance of the study, scope of the study, time budget, financial budget, operationalization and definition of terms, ethical research and organization of the study. The second chapter is concern with the review of different researches and related literature dealing with the challenges of tax audit administration. Third chapter are presented research methodologies will used in conducting the study and description of the study area, research design, data sources, sample size and sampling procedures, data collection instruments, data collection procedures and methods of data analysis. Chapter four is the main body of the study results and discussion of statistical data will be presented in this chapter. Final chapter was recapitulating the study in terms of summary, conclusions and recommendations of the study.

CHAPTER TWO

Litreature Review

2. 1. Evolution of auditing

Government auditing in Ethiopia dates back the early 1931 constitution, which stressed the importance of the proper collection of the state revenue and the necessity of procedures to control expenditures but stopped short of either referring to or requiring any audit as such. This, in fact, had to wait for proclamation 69 of 1944, which established the Commission for Audit which was largely responsible for the examination and control of the accounts of the Ministry of Finance and was directly accountable to the Prime Minister.Articles 120 and 121 of the revised constitution of 1955 clearly conferred the rights and duties of auditing all ministries, departments, and agencies to the Auditor General, whose office was then established as a separate, independent entity that reported directly to the Emperor and to the Parliament (Melese, 2003).

Subsequently, the functions of the Auditor General were amended by decree No. 32 of 1958, which was later renumbered as proclamation No. 179/1961 (1954 E.C.). This proclamation, in addition to defining powers and duties, also envisioned conditions of appointment and independence of the Auditor General and reporting mechanisms (Ibid). After the 1974 Ethiopian Revolution, proclamation No. 164 of 1979 (1971E.C.) was enacted to redefine the powers and duties of the Auditor General giving him additional responsibility of auditing mass organizations, development projects as well as conducting performance auditing. No further improvement was enacted to enabling law of the Office of the Auditor General until the power and duties of the Office of the Auditor General were redefined by proclamation 13/1987(Melese, 2003).

Senait (2003) also mentioned that up to 1994 OFAG was the only government audit institution in Ethiopia. Proclamation No. 68/1997 was enacted to establish the Office of the Federal Auditor General (OFAG) which gave the power and duty to undertake Financial and Performance audits (or cause to be audited) on accounts of the federal government offices and organizations, accounts involving budgetary subsidies and special grants extended by the Federal Government to Regional States.

The general definition of an audit is an evaluation of a person, organization, system, process, project or product.

Audits are performed to ascertain the validity and reliability of information; also to provide an assessment of a system's internal control. The goal of an audit is to express an opinion on the person/organization/system (etc) in question, under evaluation based on work done on a test basis. Due to practical constraints, an audit seeks to provide only reasonable assurance that the statements are free from material error. In the case of financial audits, a set of financial statements are said to be true and fair when they are free of material misstatements - a concept influenced by both quantitative and qualitative factors (Kamal and Ashok, 1999).

In financial accounting, an audit is an independent assessment of the fairness by which a company's financial statements are presented by its management. It is performed by competent, independent and objective person(s) known as auditors or accountants, who then issue an audit report based on the results of the audit. Such systems must adhere to generally accepted standards set by governing bodies regulating businesses; these standards simply provide assurance for third parties or external users that such statements present a company's financial condition and results of operations 'fairly' (Richiute, 1982)

2.1.1 Auditing standards

The general, field work, and reporting standards (the 10 standards) approved and adopted by the membership of the AICPA, as amended by the AICPA Auditing Standards Board (ASB), are as follows: General Standards: Firstly, the auditor must have adequate technical training and proficiency to perform the audit. Secondly, the auditor must maintain independence in mental attitude in all matters relating to the audit. Lastly, the auditor must exercise due professional care in the performance of the audit and the preparation of the report (SAS, 2006).

Standards of Field Work: firstly, the auditor must adequately plan the work and must properly supervise any assistants. Secondly, the auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. Lastly, the auditor must obtain sufficient appropriate1 audit evidence by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements under audit (SAS, 2006).

Standards of Reporting: firstly, the auditor must state in the auditor's report whether the financial statements are presented in accordance with generally accepted accounting principles. Secondly, the auditor must identify in the auditor's report those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period. Thirdly, When the auditor determines that informative disclosures are not reasonably adequate, the auditor must so state in the auditor's report. Lastly, the auditor must either express an opinion regarding the financial statements, taken as a whole, or state that an opinion cannot be expressed, in the auditor's report. When the auditor cannot express an overall opinion, the auditor should state the reasons therefor in the auditor's report. In all cases where an auditor's name is associated with financial statements, the auditor should clearly indicate the character of the auditor's work, if any, and the degree of responsibility the auditor is taking, in the auditor's report (SAS, 2006).

2.2 Definition and Objective of tax audit

Tax audit was introduced in the year 1984. The main purpose was to ensure the accuracy of books of accounts maintained, which forms the basis of computation of income of the assesse. The responsibility was casted on chartered accountants. Time and again changes were made in the reporting requirements of tax Audit report which not only widened the scope of audit to an incredible scale but has also indicated the trust banked upon the Chartered Accountancy Profession by the Government. To discourage tax avoidance and evasion, the requirement of a tax audit was introduced by the Finance Act of 1984, by inserting a new section “44AB” w.e.f Assessment Year 1985-86. A Tax Audit involves an expression of the tax auditors' opinion on the truth and correctness of certain factual details, given by assesses to the Income Tax Authorities to enable an assessment of tax (Jokhakar, 2006).

A tax audit is an examination of whether a taxpayer has correctly assessed and reported their tax liability and fulfilled other obligations. Tax audits are often more detailed and extensive than other types of examination, such as general desk checks, compliance visits/ reviews or document matching programmes. There are, of course, exceptions to this rule. Conditions and approaches vary from country to country. Generally, an audit will examine the issues seen as most significant to achieving an accurate assessment of a taxpayer’s tax liability.

Typically, these issues will include any indications of significant unreported income (for example, as may be suggested by a very low ratio of net/gross business income ratio computed from a taxpayer's return) or potentially over-claimed deduction items that may be apparent from an examination of a taxpayer's tax return and other information. As well as income tax returns and other reporting, this includes supporting documents, which the taxpayer should normally have. In the case of business audits, national law often requires a business to obey certain bookkeeping and accounting standards. The audit may also involve physical enquiries, such as the inspection and examination of goods in stock, premises etc (OECD, 2006).

As Biber (2010) noted, the role of an audit program in a modern tax administration must extend beyond merely verifying a taxpayer's reported obligations and detection of discrepancies between a taxpayer's declaration and supporting documentation. Most taxpayer's report their tax liabilities more accurately if they believe that the tax administration has the capacity to detect any unreported liabilities and that heavy penalty may be applied when they are detected. Thus, tax audit results in increased tax revenue in two ways: (1) directly through assessment of additional taxes; and (2) indirectly by discouraging underreporting of liabilities by all taxpayers. Further, Barreca and Ramachandran (2004) noted that the purpose of tax audit is to check the evasion of tax and ensure compliance in accordance with the laws and regulations.

Tax Audit would serve the following purposes: Firstly, Ensure that the books of accounts and other records are properly maintained, Secondly, Faithfully reflect the income of the tax payer and claims for deduction correctly made by him, thirdly,Help in checking fraudulent practices, And lastly, Facilitate the administration of tax by a proper presentation of accounts before the tax authorities and considerably saving the time of assessing officers in carrying out routine verifications like checking correctness of totals and verifying whether purchases and sales are properly vouched or not, thereby their time could be utilized for attending to more important investigational aspects of the case (OECD, 2006).

The audit programs of a revenue body performs a number of important roles that, effectively carried out, can make a significant contribution to improved administeration of the tax system. Firstly, promote voluntary compliance: The primary role of the audit program is to promote voluntary compliance by taxpayers with the tax laws. It seeks to achieve this by reminding taxpayers of the risks of noncompliance and by engendering confidence in the broader community that serious abuses of the tax law will be detected and appropriately penalized.

Detect non-compliance at the individual taxpayer level: By concentrating on major areas of risk (e.g. unreported cash income) and those individual taxpayers most likely to be evading their responsibilities, audits may bring to light significant understatements of tax liabilities, and additional tax revenue collections. Secondly, gather information on the “health” of the tax system (including patterns of taxpayers’ compliance behavior): The results of normal audit activity may provide information on the general well-being of the tax system. Audits conducted on a random basis can assist overall revenue administration by gathering critical information required to form judgments on overall levels of tax compliance—that overtime can be used to identify trends in overall organizational effectiveness—and to gather more precise information that can be used to inform decision-making on future compliance improvement strategies, to refine automated risk-based case selection processes, and even support changes to tax legislation. Thirdly, gather intelligence: Audits may bring to light information on evasion and avoidance schemes involving large numbers of taxpayers that can be used to mount major counter-abuse projects. Foutthly, Educate taxpayers: Audits can assist clarify the application of the law for individual taxpayers and to identify improvements required to recordkeeping and thus may contribute to improved compliance by taxpayers in the future. Finaly, Identify areas of the law that require clarification: Audits may bring to light areas of the tax law that are causing confusion and problems to large numbers of taxpayers and thus require further efforts by the revenue body to clarify the laws’ requirements and/or to better educate (OECD, 2006).

2.3 Types of tax audit

There are different types of Tax Audit which are implemented in different countries. (Ebrill, 2001), (Grandcolas, 2005), (Harrison and Krelove, 2005), and (Biber, 2010) noted that, there are different tax audit program. These are desk audit or verification, field audit, registration check, advisory audit, record keeping audit, refund audit, issue-oriented audit, comprehensive or full audit and fraud investigation (OECD, 2006).

2.3.1 Desk audit or verification: Desk audit usually carried out annually and primarily based on: (1) a review of income tax and VAT returns, or basic ratios comparing with previous periods or other taxpayers in similar industries, and (2) the crosschecking of information included in the taxpayer files. It involves basic checks conducted at the tax office when the auditor is confident that all necessary information can be ascertained through in-office examination. Information technology (IT) systems should provide strong support for these verifications (Ebrill, 2010).

2.3.2 Field Audit: According to OECD (2006), field audit is a type of audit focuses on detailed examination of taxpayers' books and records to determine whether the correct amounts were reported on the tax returns. The auditor may also obtain information from other sources such as banks, creditors and suppliers, to confirm items on returns. The audit is conducted at taxpayers' place of business, home, or at the office of their accountant, attorney, or other person who may represent them. The auditor tries to select the place that is most appropriate under the circumstances and most convenient for them.

2.3.3 Registration check: Registration check is a form of unannounced visits to taxpayer's premises for new enterprises (mainly small and medium sized) to detect businesses operating outside the tax system and a quick check on businesses to establish that they are correctly registered. It should not take more than half a day (OECD, 2006) According to Ebrill, (2001) in this visit, the tax officer ensures that the taxpayer: (1) has a basic understanding of their obligations; (2) keeps appropriate records (book keeping review should be mandatory in case of voluntary compliance when the turnover of the taxpayer is below the registration threshold); and (3) issues proper invoices when required by law.

2.3.4 Advisory audits: It involves the auditors visit to newly established businesses. They advise them regarding tax types, filing of returns, payment of amounts due, record keeping to be maintained, refund claims, risk of audit and sanctions of noncompliance. These visits are very appropriate when introducing new tax laws (OECD, 2006).

2.3.5 Record keeping audit: It is unannounced visits to the taxpayers' business premises to check whether the appropriate records are kept and VAT invoices are issued. The visit points out the obligations of the taxpayer regarding the keeping of records and followed up with penalties if the taxpayer continues to disregard record keeping requirements (OECD, 2006).

2.3.6 Refund audit: Refund audit should focus only on the period covered by the claim. A pre-refund audit should be undertaken to verify the taxpayer's entitlement to a refund prior to processing a first refund claim particularly for new registrants. It is also carried out where the refund claim varies significantly from established patterns and trends. Audits of further claims should be carried out selectively (Grandcolas, 2005).

2.3.7 Issue-oriented audit: According Grandcolas (2005) issue oriented audit focus on a single tax type and covers no more than one or two reporting periods.

It should be directed at verifying items for which errors have been detected in the returns (atypical ratios, gross revenues, comparison of gross sales to imports). Single-issue audits are confined to one item of potential noncompliance that may be apparent from examination of a taxpayer's return. Given their narrow scope, single-issue audits typically take less time to conduct and can be used to review large numbers of taxpayers involved in similar schemes to conceal non-compliance (OECD, 2006).

2.3.8 Comprehensive or full audit: Ebrill (2011) defined comprehensive audit as comprehensive examination of all information relevant to the calculation of a taxpayer's tax liability for a given period. This audit may cover all tax obligations over a number of tax periods, or extended to several years up to the limit provided for in the law. All cases where serious underreporting or evasion has been detected under any of other audits should be forwarded to a unit responsible for undertaking comprehensive audits of all tax liabilities. The objective is to determine the correct tax liability for a tax return as a whole. As this audit is usually time consuming and costly to undertake, it should only be applied to those taxpayers if there is an indication of under reporting that may impact across taxes. It requires considerable resources and reduces the rate coverage of taxpayers that could otherwise be achieved by a more varied mix of audit types.

2.3.9 Fraud investigation: Fraud investigation is a type of tax audit that investigates criminal which arises from where the most serious cases of noncompliance. It helps to detect fraud, evasion, and criminal activity Krelove, (2005). Fraud investigation requires special skill including meeting evidentiary requirements, seizure of evidences or records, testimony from key witnesses and preparing briefs for courts. Hence, it should be undertaken in accordance with criminal procedure laws. OECD (2004a) stated that, Revenue authorities should maintain a dedicated organizational unit responsible for the handling of serious cases of tax fraud or evasion. According to OECD 2006 the types of tax audit is categorized in different based on the scope and its intensity of the audit performed.

Based on the scope and intensity there are different types of audit activities.

2.3.10 Full audits: The scope of a full audit is all encompassing. It typically entails a comprehensive examination of all information relevant to the calculation of a taxpayer's tax liability for a given period.

The objective is to determine the correct tax liability for a tax return as a whole (OECD, 2006).

2.3.11 Limited scope audits: Limited scope audits are confined to specific issues on the tax return and/or a particular tax scheme arrangement employed by the taxpayer. The objective is to examine key potential risk areas of noncompliance. These audits consume relatively fewer resources than full audits and allow for an increased coverage of the taxpayer population (OECD, 2006).

2.3.12 Single issue audits: Single issue audits are confined to one item of potential non-compliance that may be apparent from examination of a taxpayer's return. Given their narrow scope, single issue audits typically take less time to perform and can be used to review large numbers of taxpayers involved in similar schemes to conceal non-compliance (OECD, 2006)..

2.4 Audit Techniques

There are a number of key principles that apply to quality audits which are visible in the audit programmes already in place in OECD administrations, regardless of jurisdiction or revenue type. These are Accurate, Efficient, Objective, Transparent, Fair, Complete, Defensible and Consistent (OECD, 2006).

2.4.1 Audit support tools: In order to deliver quality outcomes, auditors need access to approved procedures, policies and tools. The first essential tool is a comprehensive audit manual. Such a tool can help to achieve consistency when dealing with taxpayers, the proper interpretation of legislation, and the correct use of operational procedures. It can also assist in the interpretation of information and in responding to requests for information by external bodies (e.g. Government, ombudsman, complaints etc.) The manual(s) will generally be published in an electronic format, to ensure ease of updating and made available to staff via the revenue body's Intranet. They should containguidance on: The legislation and its interpretation; National policy and compliance strategy; Operational management and QA/QC procedures; Case management techniques.

Many administrations build on their formal guidance by producing process maps to explain and simplify sometimes complex operations. They are easily modified so that steps are quicker and more straightforwardly shown i.e. how various areas/relationships fit together. It is able to show, at a glance, what each party should do, and when, within a process. The conduct of audits will also be facilitated.

if audit officials can prepare their plan of audit with some awareness of how particular industries and businesses are conducted and the likely level of profitability and expenses that might be expected of a business of a particular size and in located in a particular region.

It is becoming increasingly important, insofar as local technology allows, to supply IT based tools to support the audit teams in their work. These tools are (as with the guidance) as multifarious as the regimes they are being used to review. But in general they fall into three categories: Support for audit planning and processes including access to on line guidance, Access to data and tools with which to test the records and returns entries within audit and Laptop based tools to meet the operational requirements of auditors in the field.

2.4.2 Audit Planning: A comprehensive and responsive audit planning process is the key to the proper use of audit techniques, and the completion of an audit in line with the principles outlined above. This process starts with the preparation, prior to the beginning of the audit, of a written plan containing a list of prioritised risks and issues identified at that time, the data needed to test those areas of risk, and a list of interview questions for inquiries with the taxpayer, their representative and/or other parties.This plan provides a path to follow to ensure that the audit is performed effectively and efficiently. However, it should not be treated as set in stone once created. Case planning must be a flexible tool and the original audit plan should be reviewed and updated regularly during the course of the audit. Characteristics of effective audit plans are: Flexibility to allow for unusual audit issues, adequacy of internal controls and the adequacy of books and records; Alignment with any quality assurance framework; and A clear focus, with potential areas of concern noted during the preliminary review and audit procedures selected that will address the concerns identified (OECD, 2006).

The plan should also include some degree of issue prioritisation. Once a return has been selected for audit, the audit plan is analysed again for possible noncompliance impact and/or materiality. An issue sequence is established according to the relative weight of each issue. As the audit progresses, at the discretion of the auditor, if the highest impact issues are resolved without tax consequence, the lesser impact issues may be abandoned on the grounds of diminished risk (OECD, 2006).

2.4.3 Pre-contact Analysis & Case Selection methods: Case selection through the use of risk management techniques is necessary to ensure that the audit programme is fully in line with the administrations compliance strategy.

Pre-contact analysis is considered an essential part of the audit process. Time invested here can pay dividends in terms of a reduced burden on taxpayers and reduced compliance resources expended during the audit. As the name suggests, this activity takes place before the audit begins, and where a thoroughgoing risk management process is in place, is an essential part of the risk analysis and prioritisation process. In other circumstances the activity will be carried out by the auditor in preparing the audit plan.

One element of many case selection procedures that usually sits within audits teams is the manual review or screening of tax returns. There are a number of key facets in this process.

Screening needs to be supported by appropriate training and guidance regimes, and to be fully integrated with the risk management process. The screening role can be carried out in local audit teams or in specialised (and centralised) units.The process is monitored to assure accuracy and the proper application of guidance. There are two general techniques: Managerial Review is a centralised screening procedure in which, a supervisory official reviews the work of the employees in the centralised unit. If the screening takes place at the local office, the auditor's manager conducts the quality review. Secondary Review is a centralised review function, which is responsible for all case processing activities. Once a no-audit decision is made, a sample of no audit cases is forwarded to the central review function for quality assessment. This activity may also be conducted as a post closed case review. An essential part of any such screening review is a review of prior audit history of the taxpayer, looking for evidence of previous issues with tax compliance, or conversely confirmation of a previously blameless compliance history. Where IT-based initial selection procedures are in use, the physical screening is usually a second order check, to validate the decision to audit or to give evidence supporting a decision not to audit. Written documentation of a no-audit decision is usually required (OECD, 2006).

The level of other pre-contact work will largely depend on the complexity of the affairs of the customer concerned, and the tax risks identified during risk assessment. Nevertheless they can be categorised into four general headings: Firstly, unreported income is a critical element of the audit process and can be prevalent in many small businesses. The pre contact work must review evidence for potential under reporting. In particular: the auditor/risk assessor might carry out additional analysis of the tax return to ensure that all income is properly reported using such techniques as gross profit reviews, and cash flow analysis; in addition, minimum income verifications- may be identified during the selection process to address unreported income.

These minimum verifications may vary depending upon the type of return examined (business versus non-business), the cash nature of the business or other attributes**.** Secondly, Intelligence gathering – this is an essential part of the risk assessment process, but where data is not available prior to case selection, auditors need to ensure that all relevant intelligence from internal and external sources is gathered together to inform the audit plan. Internal sources of information include bank interest and other financial details, prior/subsequent tax returns on file and third party information for interest, dividends, or other income payments to taxpayers. External resources include anything available in the public domain or by use of formal information requests from public bodies such as local authorities, and with the advent of Internet the list is unending. Thus it is very important to keep control of the resource costs in compiling additional data compared to the potential benefits in more effective audit. In some administrations auditors are allowed to observe business activities discreetly. Most countries prohibit this practice for privacy reasons.

Thirdly, reviewing prior compliance history - A common technique is to get the tax returns from multiple tax years for comparison of income, expense or balance sheet issues. Some countries formalise the review process with ratios to gain a better perspective on the overall picture of the taxpayer's track record for tax compliance. Finally, Returns preparer performance – it is a common practice to consider the firm or individual who prepared the return as a factor in selecting returns for audit. The use of this standard varies from country to country. One policy holds that if the preparer is perceived as a risk to the health of the tax system, additional scrutiny may be exercised. Another policy suggests that the promotion of tax avoidance schemes by a preparer is justification for audit selection. Other standards for returns preparer audits include poor performance, defrauding taxpayers, filing false tax credit claims, negligence and fraudulent performance. Advance managerial approval is generally required to expand the scope of a return preparer investigation to include all tax returns prepared by the individual or firm (OECD, 2006).

2.4.4 Tax audit Examination Techniques

An auditor will apply various techniques to examine the books and records behind a return. These will vary with the customer and the tax regime concerned. Broadly they will adhere to a few key principles:

2.4.4.1 Analytical review - An analytical review of financial statements and returns as filed is often completed during the preliminary stages of the audit.

Ratios, such as gross profit and inventory turnover ratios, are used to test the accuracy of a taxpayer/registrant's reported sales, cost of sales, or ending inventory; unusual variances are noted and addressed during the interview with the taxpayer/registrant and additional audit procedures developed where necessary (OECD, 2006).

2.4.4.2 Investigative approach - Auditors are encouraged to use an investigative approach in their audits. Such an approach uses information obtained through observation, discussion, documents or records obtained from either the taxpayer/registrant or from other sources; it requires judgement, imagination and using information outside the accounting records to perform the audit.Field examinations are also utilised as opportunities for gathering information on significant events such as (i) backdoor trade, (ii) disguised transaction, (iii) shift of investments, and (iv) other data concerning transactions regarded by the auditor in charge as having potential linkage with discovery of irregularities. They also include on-sight survey of the current conditions of the taxpayer's business through on-the-spot physical checks of original transaction records and vouchers; assets and liabilities such as cash, accounts receivable, inventory assets, and accounts payable; and other contents of business (OECD, 2006)..

2.4.4.3 Records Examination - the main approaches to detect false accounting include the examination of books and documents conducted at the taxpayer's business office or branches, counterpart examinations and examination of savings and deposit accounts. Examples include: Cross-checking purchase and sales invoice to look for the possibility of offrecord sales; Cross-checking declared sales with money deposited into bank accounts to identify indications of diverted income; Cross-checking appointment or order books with sales invoices to look for the possibility of off-record sales; and Checking purchases and sales invoices for any information that might indicate forms of ancillary income (OECD, 2006).

2.4.4.4 Third party information/Counterpart examinations - Where warranted, information can be obtained during the course of an audit from third parties to verify the taxpayer's income, for example: financial institutions and public companies information on interest and dividends matched with what taxpayers report in their tax return; information from Government regarding social benefit payments, and employer information concerning salary and wages paid and tax deducted , both for income and non-monetary benefits; matching foreign source income; and other parties, for example notices may be issued to real estate agents demanding that they release information on an individual's rental income (OECD, 2006).

2.4.4.5 Use of indirect methods to verify income: Indirect methods of verification and re-calculations of profits are therefore essential tools to bring audits to an effective conclusion. There are a variety of methods and the extent of their use varies across revenue bodies. Some common examples, drawing on descriptive material in the US Internal Revenue Service's Examination Manual are provided hereunder, while more detailed information and a number of case studies can be found in the accompanying note 'Strengthening Tax Audit Capabilities: Innovative Approaches to Improve the Efficiency and Effectiveness of Indirect Income Measurement Techniques'(OECD, 2006).

Firstly, Source and Application of Funds Method (also known as the T-account method): The Source and Application of Funds Method of reconstructing income to determine the actual tax liability is an analysis of a taxpayer's cash flows and comparison of all known expenditures with all known receipts for the period. Net increases and decreases in assets and liabilities are taken into account along with nondeductible expenditures and nontaxable receipts. The excess of expenditures over the sum of reported and nontaxable income is unreported taxable income.

Secondly, Bank Deposits and Cash Expenditures Method: The Bank Deposits and Cash Expenditures Method computes income by showing what happened to a taxpayer's funds. It is based on the theory that if a taxpayer receives money, only two things can happen: it can either be deposited or it can be spent. The Bank Deposits and Cash Expenditures Method can be used in the examination of both business and nonbusiness returns. It may supply leads to additional unreported income, not only from the amounts and frequency of deposits, but also by identifying the sources of such deposits.Determining how deposited funds are dispersed or accumulated (to whom and for what purpose) might also provide leads to other sources of income. If the Bank Deposits & Cash Expenditures Method indicates an understatement of income, it may be due to either unreporting of gross receipts or overstating expenses, or a combination of both.

Thirdly, Markup Method: The Markup Method produces a reconstruction of income based on the use of percentages or ratios considered typical for the business under examination in order to make the actual determination of tax liability. It consists of an analysis of sales and/or cost of sales and the application of an appropriate percentage of markups to arrive at the taxpayer's Gross Receipts. By reference to similar businesses, percentage computations determine sales, cost of sales, gross profit or even net profit. By using some known base and the typical applicable percentage, individual items of income or expenses may be determined.

These percentages can be obtained from analysis of relevant declared items in tax returns, official data of Government statistical bodies or industry publications. However, it is preferable to use the taxpayer's actual markups if possible. The Markup Method is a formal indirect method that can overcome the weaknesses of the Bank Deposits & Cash Expenditures Method, Source & Application of Funds Method, & Net worth Method, which do not effectively reconstruct income when cash is not deposited and the total cash outlays cannot be determined unless volunteered by the taxpayer. If personal enrichment occurs that cannot be identified, the effectiveness of these methods is diminished. The Markup Method can also be used when conducting audits of indirect taxes (e.g, retail sales taxes). The cost of goods sold is verified and the resulting Gross Receipts are determined based on actual markup. This method is most effective when applied to businesses whose inventory is regulated or purchases can be readily broken down in groups with the same percentage of markup. An effective initial interview with the taxpayer is the key to determining the pertinent facts specific to the business being examined. Fourthly, Unit and Volume Method: In many instances Gross Receipts may be determined or verified by applying the sales price to the volume of business done by the taxpayer. The number of units or volume of business done by the taxpayer might be determined from the taxpayer's books as the records under examination may be adequate as to cost of goods sold or expenses. In other cases, the determination of units or volume handled may come from third party sources. This method for determining the actual tax liability has been effectively applied in carryout pizza businesses, coin-operated laundry mats, and mortuaries. Lastly, Net worth method: The Net worth Method for determining the actual tax liability is based upon the theory that increases in a taxpayer's net worth during a taxable year, adjusted for nondeductible expenditures and nontaxable income, must result from taxable income. This method requires a complete reconstruction of the taxpayer's financial history, since the Government must account for all assets, liabilities, nondeductible expenditures, and nontaxable sources of funds during the relevant period.

The theory of the Net worth Method is based upon the fact that for any given year, a taxpayer's income is applied or expended on items which are either deductible or nondeductible, including increases to the taxpayer's net worth through the purchase of assets and/or reduction of liabilities. The taxpayer's net worth (total assets less total liabilities) is determined at the beginning and at the end of the taxable year. The difference between these two amounts will be the increase or decrease in net worth.

The taxable portion of the income can be reconstructed by calculating the increase in net worth during the year, adding back the nondeductible items, and subtracting that portion of the income which is partially or wholly nontaxable. The purpose of the Net worth Method is to determine, through a change in net worth, whether the taxpayer is purchasing assets, reducing liabilities, or making expenditures with funds not reported as taxable income (OECD, 2006).

2.4.5 Methods of selecting taxpayers for auditing:

The following are the main methods used by tax administrations to select taxpayers for audit: Firstly, Individual screening secondly, Random selection lastly, Risk-based selection

2.4.5.1 Manual Screening: Screening is one of the oldest audit selection methods, dating back to the time when tax administrations made limited use of information technology. It consists of manual selection of audit cases by auditors based on their own knowledge of the taxpayers' behavior and environment. This technique, while it has some undeniable benefits such as the use of local and informal knowledge, a strong adhesion by auditors, and, limited need for data processing, is in fact very challenging: • It clearly increases the risk of corruption. Being manual as opposed to systematic, it means that auditors can miss some aspects of noncompliance; no attempt is made to uncover patterns of non compliance hidden in the history of noncompliance in the same area, sector, or as determined by other taxpayer attributes. Similarly, if the screening process is strictly manual, auditors often only use internal data (that is, data issued by their own administration), possibly neglecting relevant information from external data (from customs or other tax departments, for example). As a consequence, screening has fallen into disfavor at the central level of tax administration in developed countries, which tend to prefer otherselection techniques. However, it is still used in decentralized tax systems, for example, in the United Kingdom and Switzerland (OECD 2004a, 2004b).

2.4.5.2 Random Selection: This technique is the opposite of screening: taxpayers to be audited are selected randomly from the overall population of taxpayers. Even though simple random selection (giving all taxpayers an equal chance of being audited) is implemented in some countries, a widespread practice is to use stratified sampling. This defines groups of taxpayers on the basis of criteria such as size, industry, and type of tax to be paid. A random sample is then drawn from each stratum (see OECD 2004c). One benefit of stratified sampling is that it ensures a broader "representation" of taxpayers than simple random drawings.

For given statistical properties of the overall population, stratified sampling helps to reduce sample sizes (compared to simple random sampling) and lower operating costs. Random selection (either simple or stratified) has several significant benefits:

• It provides the tax administration with relevant information about compliance and other aspects of taxpayers' behavior without bias in audit selection. Random selection is a good way of gathering data and building knowledge among tax administrations. It provides statistically robust results that can be used to assess the effectiveness of the tax system and potential compliance-improvement programs. The results of an audit campaign drawn from a randomly selected sample, like the share of noncompliant taxpayers or the amount of underreported taxes, can also be easily extrapolated to the whole population of taxpayers. As such, it undeniably improves the identification of risk and can be used to develop related audit selection methods—typically those focusing on high risks.

• It is perceived as a fair selection strategy, as all taxpayers in the same stratum have the same likelihood of being audited. Similarly, it reduces the risks of corruption and arbitrary selection, especially compared with manual screening. However, random selection suffers from a major drawback: a very high opportunity cost. Cases selected for audit by methods focused on high-risk

Taxpayers or even by manual screening are likely to raise higher revenue than cases selected randomly (even with stratification). As a resultrandom audits have a low impact on direct generation of revenue and, arguably, on deterrence of noncompliance. This helps to explain why most countries that use random selection (like the United States) also use audit programs targeted to high-risk taxpayers. Of course, as discussed later in the book, at least a small number of random audits is useful for calibration purposes, and random audits are a common component of even the most sophisticated audit strategies (OECD, 2006).

2.4.5.3 Risk-Based Audit Selection: Most tax administrations have developed audit strategies focusing on taxpayer noncompliance risks (OECD 2006). This experience has shown that an efficient audit selection strategy must identify those taxpayers who are the most likely to be noncompliant, that is, who have the highest likelihood of yielding large amounts of audit adjustments and penalties. In this spirit, many tax administrations have developed audit selection strategies based on risk-scoring techniques comparable to those used to select clients in banking or insurance.

These techniques work as follows: a score is given to each taxpayer, based on (a) certain attributes (size, industry, compliance history) and (b) knowledge acquired during previous audit campaigns (whatever the selection strategy). These techniques enable the tax administration to build several "profiles" of taxpayers and hence to identify those most likely not to comply with tax rules. This selection strategy combines several of the benefits of random selection (intelligence building for tax administration, statistically robust approach), while addressing its limitations in terms of effectiveness. It is the preferred audit selection strategy in many developed countries' tax administrations and one that has been advocated by international organizations in transition and developing countries.

However, this strategy comes at a cost in terms of data and IT systems. As typically implemented in developed countries, it relies on the following: A significant amount of quality data (internal and external to the tax administration) on both past audit cases and current taxpayer attributes (Audited and unaudited). IT systems (hardware, software, and training) to process the data and provide scores and other pointers feeding into audit programming (Sultan and Awasthi, 2011).

2.5 Audit Workforce Management Issues

Without competent staff, tax audit activities will not achieve their objectives. Performance management is an important tool for shaping auditor behaviour. Competency models and competency improvement activities help develop and manage the audit workforce. Both initial and ongoing training is essential for all audit staff. Job rotation and/or placement programs provide auditors and other staff with new opportunities, experiences and challenges. Such processes help to: achieve workforce shifts, provide development opportunities, prevent inappropriate relationships with clients developing, develop the breadth and depth across the audit workforce, share knowledge and ideas across the organisation, raise staff morale, and encourage staff to improve their abilities (OECD, 2006).

2.5.1 Competency / capability models: All revenue bodies must manage and develop their audit workforce to deliver their planned outcomes. To assist with this task, administrators are increasingly designing and implementing capability / competency models. The terms 'capability or competency models' refers to a formal specification of the skills, knowledge and attributes that are required of staff to perform a specific job in a competent (i.e. efficient and effective) manner.

Competency models generally contain job descriptions, functional descriptions and/or competency profiles using task-related competencies, and are typically supported by training, exams, and educational requirements to ensure and/or build capability. Competency models are typically used as a basis for managing performance, training, staff development and recruitment across the audit function. Administrations are increasingly extending the use of such competency models, to ensure that all relevant human resource management processes across the organisation, such as hiring, training, evaluation, certification, performance assessment, staff and career development, learning and professional development, workforce planning and design etc are based on competencies (OECD, 2006).

2.5.2 Identification of required competencies: The required competencies of auditors can be identified by analysing the activities required to perform particular audit tasks, and through practice and experience. The required competencies of audit managers and directors are typically identified and based on the notion that they are to be both people leaders and tax technical leaders. Coaching, communication, and leadership skills are seen by many revenue bodies as important capabilities (OECD, 2006).

Experienced personnel (who have proven and demonstrated abilities to perform audit work) can be used to identify the required competencies to perform audit work. Specialist qualifications and skills are not important factors in determining who is to identify the required capabilities. Most revenue bodies cite senior management, team leaders and experienced audit staff as the people who identified the required capabilities for their competency model. This is often done jointly or in consultation with human resource stakeholders, training departments and head office.

The required competencies may be ranked and/or weighted in importance. The design of the competency model / system will influence this. Current experience from a number of countries indicates that the required competencies are not ranked or weighted in importance. Generally the required competencies are recognised as the critical competencies expected of any staff member to be competent at a baseline level in that role (i.e. all competencies must be observable to a minimum standard (OECD, 2006).

The required competencies for auditors are, as shown in a recent survey of several administrations, similar to the high level competencies are: conduct investigations, determine compliance, tax accounting and financial analysis, conduct research and apply work processes and procedures, manage own work, achieve results, and manage relationships.

The required competencies for audit managers and directors often, as shown in a recent survey of several revenue bodies, focus on the following themes: leadership and management skills, technical expertise, advanced audit skills, achievement orientation, ability to develop and coach others, high level communication skills, and ability to make strategic decisions.

2.5.3 Assessing competencies: It is important for administrations to assess and evaluate the competencies of their staff. Annual and bi-annual performance appraisals are generally used to evaluate a staff member's competencies, and are often performed by the direct manager. Access to human resources specialists is provided if required. Other assessment methods used include: knowledge-based assessments administered on-line, formal testing and exams to attain a recognised qualification, peer reviews, a tutor to support and assess newly hired staff, and assessment centres (including psychometric and technical evaluations). A revenue body's employment conditions and/or country employment laws do not generally prevent the use of competency assessments. Many of the laws relate to the entitlements and/or rights of staff members, and therefore indirectly influence how capability assessments are performed (e.g. equal opportunity considerations in staff recruitment).Competency assessments are commonly performed during recruitment and promotional processes and on an annual or bi-annual basis for those staff maintaining current positions. Other events triggering capability assessments include: prior to performing a new type of work, prior to starting a new role, and on-going informal assessments and learning and development activities. Many revenue bodies indirectly attain a measure of the competency level of their audit workforce by considering: key performance indicators and results, quality assurance results, client / professionalism survey results, quantity of audits performed, training course and other assessment results, etc (OECD, 2006).

2.5.4 Improving competencies and addressing capability gaps: Responsibility and accountability for improving auditors, audit managers and audit directors commonly lies with the staff member in question and their direct manager and/or local management team. Human resource departments (where applicable) often have joint responsibility and/or are significant contributors to this process, together with tax auditing / training departments. It is critical to ensure competency improvement is integrated into normal business activities, and not seen by staff as an extra task. Common methods used by revenue bodies to integrate these activities includes: building expectations regarding capability improvement, and learning and development into the performance management system and an individual's job description, making staff and managers mutually accountable to ensure development needs are met.

including time for training and other capability improvement activities in budgets and plan, allowing work time to be allocated to these activities, funding training and development courses, and offering a range of capability improvement activities to ensure they are easily integrated into the normal course of duties (eg self paced packages, on-line learning, mentoring and coaching, on-the-job training, case and issue debriefs, and formal skilling and induction courses) (OECD, 2006).

2.6 Emperical Litreature Review

A number of empirical studies examined tax administration in both developed and developing countries, tax audit program in particular. For instance, Muhammad (2013), Ewing & Elliott (2014) , Marie (2012), Badara (2012), Daniel (2011), Bibisso (2014), Abera (2016), Alamirew (2016) have been taken. All these mentioned above studies examined on the area of tax audit. A brief review of each of these studies is presented in the following discussions starting from Eroupe, Africa, and Ethiopia respectively.

Muhammad (2013) an Exploratory Study of Malaysian Tax Auditors' Enforcement Regulatory Styles conducted in-depth interviews with 49 IRBM tax auditors that explored their enforcement regulatory styles in resolving audit settlement disputes, reasoning and underpinning beliefs. The interview data were analyzed using constant comparison method, which is a continuous process of identifying conceptual categories and their properties emerging from data by consistent comparison of that data. This study sheds some light on Malaysian taxpayers' negative perceptions of tax auditors' behavior. To say that Malaysian tax auditors are rigid and interested in finding fault is not entirely correct. This study shows that tax auditors adjust their behavior according to the environment in which they work and the behavior of the individuals with whom they work. Further, it would be incorrect to assume that tax auditors have fully internalized the legal framework that they have been hired to apply and enforce. They are people, and they are taxpayers, like anyone else. To lose sight of the emotional side of audit work would be to overlook an important aspect of the field audit process (Pentland and Carlile, 1996). Consistent with enforcement regulatory literature, this study found that tax auditors apply different styles when dealing with the public. They do not use only one enforcement style, but frequently change their approach. Some tax auditors started with a firm enforcement style and then changed to a bargaining style.

Firm enforcement sometimes failed to obtain taxpayers' agreement after several meetings. When the tax auditors were pressured by their managers to achieve targets and work through a backlog of cases, they changed their enforcement styles to bargaining (e.g., by eliminating insignificant audit issues or using other indirect income methods) to reduce taxpayers' tax.

Ewing & Elliott (2014) studied Tax Audit Issues Affecting California Corporate Taxpayers. The researcher use observation types of data collection methods. As a result they identified four areas as some of the most common audit issues affecting corporations: (1) Cost of Performance and Sourcing of Intangible Sales; (2) Sales Factor and Gross Receipts; (3) Abusive Tax Shelters; and (4) Credits.

Marie (2012) studied the impact of tax audit to the tax revenue collected from large tax payers in rewanda revenue authority. In the research methodology, the research design used the correlation and cross sectional survey methodology. Qualitative and quantitative approaches were adopted to establish the relationship between tax audit and revenue performance. The researcher also analyzed primary data and secondary. Questionnaire and interview were the techniques used to obtain primary data, while secondary data was obtained through existing literature. The study population was composed of the officials of the Rwanda Revenue Authority. To achieve the objectives of the study, 69 auditors received each a questionnaire. The results of this study will help to establish the contribution of tax audit in tax revenue collection. The major findings of this study show that tax audit contributes to the effectiveness of tax collection and improvement of fiscal revenue. It is confirmed that tax audit had a positive impact on tax revenue collection. Tax audit is one of the most powerful revenue administration tools that can ensure that tax payers pay their tax liability with very little room for evasion. Therefore, the tax audit function should be strengthened to minimize both deliberate and innocence tax evasion made by many tax payers.

Badara (2012) the effect of Tax audit on tax compliance in Nigeria a case of Bauchi State Board of Internal Revenue. The methodology employed for data collection is only primary source, which involved the use of questionnaires, in which 48 questionnaire were administered to the staff of Bauchi State Board of Internal Revenue. The main finding of the study include among other; the Relevant Tax Authority (RTA) employed tax audit towards achieving target revenue, that tax audit reduce the problems of tax evasion, that tax payers do not usually cooperated with tax audit personnel during the exercise, That the tax audit reduces the problems of tax evasion, tax avoidance and other tax irregularities.

Awareness on tax rules and regulation increase compliance and reduce non-compliance tax payers, No effective sanctions over the non-compliance tax payers with the tax rules and regulations, That the personnel conducting the tax audit are skilful in the area of tax audit and That the tax audit personnel are not adequate and equipped with necessary working materials.
Daniel (2011) studied the effects of tax audit on revenue collection a case study of Keniya Revenue Authority. This study adopted a descriptive approach. The study used a sample of 58 taxpayers audited in 2010 located in Nairobi. The researcher found that Tax audit actually has an effect to revenue collection as according to the t – tests there is significance in the correlation between tax collected before the audit and after the audit. This clearly indicates that tax audit increases revenue collection. That in essence means that the more the tax audit conducted the more revenue is collected. Thus it is right to say that tax audit is directly related to revenue collection. All the tax audits are important because they add something to revenue and thus should be encouraged as it assists the government in collecting appropriate tax revenue necessary for budget, maintaining economic and financial order and stability, to ensure that satisfactory returns are submitted by the tax payers, to organize the degree of tax avoidance and tax evasion, to ensure strict compliance with tax laws by tax payers, to improve the degree of voluntary compliance by tax payers and to ensure that the amount due is collected and remitted to government.

Bibisso (2014) studied the performance of tax audit practice of the Hawassa City Revenue Authority. In particular, the study explored Types of Tax Audit performed, and effectiveness of tax audit and risk identification criteria for case selection. These investigations were addressed by employing survey questionnaires, semi structured and structured interview given to 11 tax officials and reviewing published and unpublished documents. Hawassa City Revenue Authority audit used intensively comprehensive audit and the Audit program is unchanged and not used different types of audit in relation to simplicity and complexity of cases. Taxpayers are selected for audit based on risk criteria, and selected audit cases are expected to be performed within 15days period regardless of the complexity of audit cases and the size of the taxpayers. Taxpayers might be repetitively audited if there is an indication of serious tax fraud and when they report less tax return than previous return. As a result, there is unreasonably consumption of audit resources as well as increase the hardship associated with repetitive audits for fully compliant taxpayers.

Corruption might also arise due to repetitive contact between the same taxpayers.

The audit coverage is unsatisfactory that might be due to inappropriate audit type adopted and resource constraint. Case selection was only based on associated compliance risk.

Mihiret (2011) studied tax audit practice in Ethiopia (the case of federal government), and investigates some problems in tax audit operation regarding the appropriateness of audit type used, aptness of audit case selection methods and audit examination techniques used, and capability of audit staff resources. The study adopts mixed method approach in order to achieve the research objectives and to answer research questions. Specifically, the techniques used in the study include survey with tax auditors and investigators, in-depth interviews with tax officials and taxpayers, and documentary analysis. With these research methods, the results of the study reveal that tax audit program remains undeveloped with slight range of tax audit activities performed targeting aptly specific risks. The tax audit program is a toddler tool in improving voluntary compliance and increasing future revenue performance through educating and helping taxpayers to understand their tax obligations.

Abera (2016**)** studied the factors affecting tax audit effectiveness in large taxpayer's branch office. For this study, the researcher applied quantitative (questioner) and qualitative (interview and document analysis) methods. The researcher distributes the questioners to the 62 tax auditors of LTO and the data was processed on SPSSv20.0 to make multiple regression and descriptive statistics. The results of the study is audit quality, organizational setting organizational independence, auditee attributes as well as top management support as a linear combination significantly influence tax audit effectiveness in the organization studied. However, as individual predictors: organizational setting and auditee attributes are not significant enough to undermine tax audit effectiveness.

Alamirew (2016) studied the impact of tax audit on tax compliance in Ethiopia, at federal level by using secondary macro data. To analyze the data the partial coefficient regression statistical analysis method was employed. The Pearson correlation result shows that there is a strong relationship between the probability of audit detection and the level of tax compliance. The result also reveals that there is a strong relationship between the number of audited files and the level of tax compliance. The bivariate regression result shows that probability of audit detection and the level of tax compliance is significantly positively related.

The result also reveals that, there is a positive significant relationship between the number of audited files and the level of tax compliance. The partial coefficient regression result displays that both the probability of audit detection and number of audited files were significantly related with the level of tax payer’s compliance. This result shows that the joint effect of probability of audit detection and number of audited files better explain the level of tax compliance over the individual effect.

2.7 Conclusions to the literature review and knowledge gap

Challenges of Tax audit adminstration is a current issue for both developing and developed countries. There is no sufficient theory regarding tax audit activities. In the theoretical review, to the knowledge of the researcher, there is no standard as to the percentage of audit methodologies to be conducted in a given tax authority. In addition, there is no adequate literature regarding the appropriate audit examination techniques to be used for checking the accuracy of tax returns in line with the level of economy and technological advancement, developing countries in particular. The empirical studies that have been reviewed in the preceding section focused on the different problems that affect tax audit revenue collection and improving the tax audit coverage. In addition, most prior studies regarding tax audit issues tried to examine the possible audit strategies including the use of audit information for the purpose of compliance improvement and fraud detection, and the impact of component reporting requirements on taxpayer incentives to misstate the tax liability.

However, to the knowledge of the researcher, it is possible to conclude that although there have been a number of studies on tax audit related issues both in developed and developing countries, Ethiopia in particular, there are no studies that exhaustively examine the challenges of tax audit adminstration. In Ethiopia, the two exceptions regarding tax audit issues are the study by Bibisso (2014), Abera (2016), Alamirew (2016) and Mihiret (2011) which have been reviewed. Bibiso (2014) studied on Assessment of tax audit practice: the case of hawassa city adminstration. The result revealed that the Revenue Authority of Hawassa city administration extensively use comprehensive types of audit. Due to this the audit coverage of the revenue authority was small, cases were selected based on associated risk but not used the standard risk identification criteria as of BPR. Abera (2016) studied investigate factors affecting tax audit effectiveness on large tax payer’s office. The study found no statistical relationship between auditee attributes and tax audit effectiveness. However, the Tax Audit Effectiveness is highly affected by audit quality of the department, managements support and the organizations independence.

While as auditors perception it doesn’t be affected by organizational setting and auditees attribute. Mihiret (2011) studied tax audit practice in Ethiopia (the case of federal government) and investigated key problems in tax audit operation regarding the appropriateness of audit type used, audit rate, base of audit case selection methods and audit examination techniques used, and the experience and capability of audit staff resources. The results of the study reveal that tax audit program remains undeveloped with slight range of tax audit activities performed targeting aptly specific risks. The tax audit program is a toddler tool in improving voluntary compliance and increasing future revenue performance through educating and helping taxpayers to understand their tax obligations. The study also shows low audit coverage, the absence of compliance risk-based audit case selection strategy, scarcity of audit resources, tax auditors in particular, and absence of proficient and experienced tax auditors.

All of these studies did not comprehensively examine challenges of tax audit adminstration by considering issues such as rule and regulation, monotoring, evaluation, verification of income based on indirect methods, usage of sample from diferent branches, challenges from auditors and auditee in Ethiopia. Based on these gaps in the literature together with the problems stated in section 1.2, the research question is established. With this end, the next chapter discusses the research design and specific research methods that are applied for the study along with proper justification for the selection of appropriate research methods.

Chapter Three

3. Research Methodology

3.1 Research methods and approaches

the study were used mixed approaches both quantitative and qualitative data (used mixed method) in order to generate the advantage of both approaches like; to address different objectives of the study, which cannot be achieved by a single method and to enable one approach to inform another approach, either in design or in interpretation. It also helps to triangulate the findings of different approaches (either performed concurrently or sequentially) in an effort to provide greater confidence to the study.

Mixed methods research is an approach to inquiry involving collecting both quantitative and Qualitative data provides a more complete understanding of a research problem than either quantitative or qualitative approach alone (Creswell, 2003). Johnson and Turner (2007) have argued that the fundamental principle of mixed methods research is that multiple kinds of data should be collected with different strategies and methods in ways that reflect complementary strengths and non-overlapping weaknesses, allowing a mixed methods study to provide insights not possible when only qualitative or quantitative data are collected. As Cooper (2009) stated, most researchers recognize that qualitative method compensates for the weaknesses of quantitative methods and vice versa.

3.2 Sources of Data

The study were used both primary and secondary data, because the weakness of one source of data can be compansated by the strength of other data sources. The primary data are those which are collected afresh and for the first time, and thus happen to be original in character. The secondary data, on the other hand, are those which have already been collected by someone else and which have already been passed through the statistical process. The researcher would have to decide which sort of data he would be using (thus collecting) for his study and accordingly select one or the other method of data collection. The methods of collecting primary and secondary data differ since primary data are to be originally collected, while in case of secondary data the nature of data collection work is merely that of compilation (Kothari, 2004).

3.2.1 Methods of data collection

The study used questionarie, interview and document source methods of data collection. Acording to Kothari (2004) there are four most important factors that the researchers consider in order to appropirate slection of data collection methods. Firstly, Nature, scope and object of enquiry: This constitutes the most important factor affecting the choice of a particular method. Secondly, Availability of funds: Availability of funds for the research project determines to a large extent the method to be used for the collection of data. Thirdly, Time factor: Availability of time has also to be taken into account in deciding a particular method of data collection. Some methods take relatively more time, whereas with others the data can be collected in a comparatively shorter duration. Lastly, Precision required: Precision required is yet another important factor to be considered at the time of selecting the method of collection of data.

There are several methods of collecting primary data, particularly in surveys and descriptive researches. Important ones are: (i) observation method, (ii) interview method, (iii) through questionnaires, (iv) through schedules, and (v) other methods which include (a) warranty cards; (b) distributor audits; (c) pantry audits; (d) consumer panels; (e) using mechanical devices; (f) through projective techniques; (g) depth interviews, and (h) content analysis (Kothari, 2004).

There are several methods of collecting Secondary published data are: (a) various publications of the central, state are local governments; (b) various publications of foreign governments or of international bodies and their subsidiary organisations; (c) technical and trade journals; (d) books, magazines and newspapers; (e) reports and publications of various associations connected with business and industry, banks, stock exchanges, etc.; (f) reports prepared by research scholars, universities, economists, etc. in different fields; and (g) public records and statistics, historical documents, and other sources of published information. The sources of unpublished data are many; they may be found in diaries, letters, unpublished biographies and autobiographies and also may be available with scholars and research workers, trade associations, labour bureaus and other public/ private individuals and organisations (Kothari, 2004).

3.2.1.1Questionnaire

The study was used closed ended and open ended questions. Closed ended questionnaire is appropriate to gather straight forward and uncomplicated information. The study also used semi structure qestionnarie for interview tax officials.

Because it is Useful for learning about the perspectives of individuals, Allows people to talk about their personal feelings, opinions, experiences and Appropriate for addressing sensitive topics. Questionnaires were distributed to the selected respondents to get primary data on the problems of tax audit administration. The questionnaires had provided to the tax auditors. The semi structured questionnaries are interviewed five audit department head of the branchs. The study has been used likert scale item questionnarie design techniques. Therefore the researcher used a 5-point likert scale "Strongly Disagree", "Agree", "Neither", "Disagree", and "Strongly Agree". Such questionnaires begin with a series of closed questions, with boxes to tick or scales to rank, and then finish with a section of open questions for more detailed response. The sources of the questionnaire are from Mihiret (2011) three likert type and six multiple choice questions, from Abera (2016) seven likert type questions, from Bibiso (2014) four mulitiple choice questions and other questions are drived from literature.

Questionnaire as a tool for data collection has its own advantages and limitations. The advantages found from the literature includes that the data collected through the use of questionnaire are efficient, reliable because of anonymous, honest, economical (in terms of time and money), quick (even possibly mailed), consistent (little scope for bias), offers the possibility of standardizing and comparing scales, and enables the anonymity of the data sources to be preserved. Nevertheless, the major limitations are nonflexible (no longer possible to backtrack once the administration phase is under way), lack of qualitative depth, low response rate, inability to offset a lack of sufficient data or an error in the scale used (Morrison, 2000).

Dawson (2002) also stated that researchers tend to use a combination of both open and closed questions important for the quality of the data. Likert scales are a non-comparative scaling technique and are unidimensional (only measure a single trait) in nature. Respondents are asked to indicate their level of agreement with a given statement by way of an ordinal scale. Most commonly a 5-point scale ranging from "Strongly Disagree", "Agree", "Neither", "Disagree", "Strongly Agree" used. Each level on the scale is assigned a numeric value or coding, usually starting at 1 and incremented by one for each level (Likert, 1932).

3.2.1.2 Interview methods:

These studies were applied semi structure interview to explore the data. The researcher was interviewed five audit department heads in five small tax payer branches.

The reason for the use of interview with audit head is summarized reports are prepared by them and also they are involved on the risk selection, supervision and monitoring of the audit process.
The method of collecting information through personal interviews is usually carried out in a structured way. As such we call the interviews as structured interviews. Such interviews involve the use of a set of predetermined questions and of highly standardised techniques of recording (Kothari, 2004). More information and too in greater depth can be obtained, Interviewer by his own skill can overcome the resistance, ifany, of the respondents; the interview method can be made to yield an almost perfect sample of the general population, There is greater flexibility under this method as the opportunity to restructure questions is always there and Samples can be controlled more effectively as there arises no difficulty of the missing (Kothari, 2004).

3.2.1.3 Document source:

The document data is used for examining the number of taxpayers audited in a given fiscal year, the amount of additional tax revenue through audit, tax audit coverage, challenges of tax audit implementation reported by the audit department and the supervision report from 2013/2014_2016/2017 in the study area. The Tax functions (tax planning, tax defense, tax compliance, tax accounting and reporting), faces significant challenges in documentation and records management. Important documents and supporting workpapers stored inadequately organized Schofield, (2016). The data were collected four consecutive years because if more than this the researcher may be difficult to manage and their willl be lack of documentation in revenue offices.

As Creswell (2009) noted, use of documentary analysis has its own strengths and limitations. The strengths are enables the researcher to obtain the language and words of participants, can be accessed to the researcher at a time conveniently, represents data which are thoughtful (participants given attention when compiling them), and economical (it saves the time and expense of transcribing). Whereas, the limitations include incompleteness, lack of accuracy (the documents may not be authenticated), requires transcribing or optically scanning for computer entry, not all people are equally articulate and perceptive, and may be protected from private access. In addition to the data obtained through other methods, this study employed a descriptive analysis of documents such as periodical tax audit reports, proclamations, tax audit policy, and others documents that are relevant for the study.

3.3 Target Population

According to Diamantopoulos (2004), a population is the full universe of people or things wich a sample will be drawn from. The target population suitable for this study is 245 tax auditors in 10 small tax payer branchs in Addiss Ababa (AATASD, 2017). From the target population the researcher collect different information and data on the character, practice, type and source of tax audit adiminstaration challenges in the study area. Tax auditors were selected as a target population because, all are working in tax audit department and they are expected to know the challenges of tax audit adiminstration of the branches.

3.4 Sampling technique and procedure

To achieve the objective of the study the researcher were used non probablity methods of convinence sampling. Because ERCA announced there is tax payer’s daily income ditermination work starting from May 2017. As a result a researcher doesn’t get all auditors to include in the sample. The total numbers of auditors in all branches are 245 (AATASD, 2017). Thus in this case the sampleing procedure will be firstly, Collect the no of auditors in each branch secondly, giving codes for auditors in each baranch thirdly, Ditermine sample saize fourthly, Multiply the sample size from each percentage share of branch lastly, Apply convinence sampling in each branch.

Non-probability sampling is that sampling procedure which does not afford any basis for estimating the probability that each item in the population has of being included in the sample. In this type of sampling, items for the sample are selected deliberately by the researcher; his choice concerning the items remains supreme. In other words, under non-probability sampling the organisers of the inquiry purposively choose the particular units of the universe for constituting a sample on the basis that the small mass that they so select out of a huge one will be typical or representative of the whole. Thus, there is always the danger of bias entering into this type of sampling technique. But in the investigators are impartial, work without bias and have the necessary experience so as to take sound judgement, the results obtained from an analysis of deliberately selected sample may be tolerably reliable (Kothari, 2004).

Convenience sampling is a sampling technique in which you collect samples of data from people who are easily accessible to you.As the name suggests, the major advantage of convenience sampling is the convenience with which it can be carried out. Subjects for a study are easily available within the proximity of the researcher.

Hence, the researcher does not have to do any extra effort or go out of the way to gather data.With the convenience sampling technique, the survey can be conducted in a short span of time. This happens because we don't conduct an exhaustive research of the entire population, but we aim to gather primary data on a topic by asking a handful of easily approachable people. It is a very cost-effective option (Sunders and Lewis, 2012).

3.5 Sample Size Determination

Sample size ditermination is the act of choosingthe number of observation or replicates to include in a statistical sample. Sample size refers to the number of individual pieces of data collected in a survey (Kothari, 2004). According to Sangeeth, (2007), sampling formula uses two key factors: firstly, the risk the researcher is willing to accept in the study, commonly called the margin of error, or the error the researcher is willing to accept, and secondly, the alpha level, the level of acceptable risk the researcher is willing to accept that the true margin of error exceeds the acceptable margin of error. Often, the sample size is expressed in terms of variance. Yamane (1967:886) provides the Following simplified formula to calculate sample sizes,

$$n=N/ (1+N (e)^{2})$$

Where n is the sample size, N is the population size, and e is the level of precision

Sample Size for ±5% Precision Levels where Confidence Level is 95%, N= 245 and P=0.05

Therefore $n=245/ (1+245 (0.05)^{2}) =245/1.6125=152$ as a result the total sample size will be 152. The larger the sample size means the error was minimized therefore large sample size is meaning full for reducing errors.

Table no of tax auditors in small tax payer branch in adiss ababa

No	Small Tax payer branch	No of auditors	%ge share	% share*sample size 152
1	Adiss ketema sub city	41	17	26
2	Akaki qality subcity	16	6	9
3	Arada sub city	32	13	20
14	Bole sub city	36	15	22
5	Gulele sub city	20	8	12
6	Lideta sub city	18	7	11
7	Kirkos sub city	24	10	15
8	Kolfe qeraniyo sub city	24	10	15
9	Nifas silk lafto sub city	12	5	8
10	Yeka sub city	22	9	14
	Total	245	100	152

Source: AATASD, 2017

3.6 Validity and reliability of the tools

The validity of the secondary data would be approved through different mechanisms. The researcher was used audit report of the branch but in order to check the truth the researcher were use the team leader's report of auditors in each month. The researcher also check the department head is experienced or not in tax audit work. The researchers were assured the validity of the data and method by showing to research experts. The researcher could be determining Sampling validity by comparing the instrument items from the sample with the population items that will be theoretically explained. This is done through comparing the characteristics of challenges of tax audit administration from the sample and from remaining population.

Sound measurement must meet the tests of validity, reliability and practicality. In fact, these are the three major considerations one should use in evaluating a measurement tool. "Validity refers to the extent to which a test measures what we actually wish to measure. Reliability has to do with the accuracy and precision of a measurement procedure ... Practicality is concerned with a wide range of factors of economy, convenience, and interpretability. Validity is the most critical criterion and indicates the degree to which an instrument measures what it is supposed to measure. Validity can also be thought of as utility.

In other words, validity is the extent to which differences found with a measuring instrument reflect true differences among those being tested. one can certainly consider three types of validity in this connection: (i) Content validity; (ii) Criterion-related validity and (iii) Construct validity. A measuring instrument is reliable if it provides consistent results. Reliable measuring instrument does contribute to validity, but a reliable instrument need not be a valid instrument. Accordingly reliability is not as valuable as validity, but it is easier to assess reliability in comparison to validity (Kothari, 2004).

3.6.1 The Pilot Study: The pilot study conducted in 10 sub city small tax payer auditors to see whether the intended instruments could work as planned. The studies were suggested that certain items of the questionnaires and interviews need to be modified. Accordingly, some inconsistencies among the items were avoided and the ambiguous questions are corrected. The researcher were used the language of editor in order to assure the reliability of the questioner.

3.6.2 Cronbach's Alpha: Cronbach's alpha is most commonly used to assess the internal consistency of a questionnaire (or survey) that is made up of multiple Likert-type scales and items. First, Cronbach's Alpha for pilot study of the instrument devised by the researcher was determined, and then, after some modifications, the tests were subjected to the final questionnaire. All of the measures included in the questionnaire showed acceptable levels of internal consistency reliability (Bagher, 2003). There fore the researcher used Cronbach's Alpha in order to assess reliablity of the questionaries.

Table 3.2 Cronbach's Alpha result

variables	No of items (n)	Cronbach's α
Legal fram work	6	0.84
Organizational strucure	3	0.95
Management support	10	0.8
Audit techniques	6	0.83
Workforce management	8	0.82
Auditor contribution	4	0.91
Auditee contribution	3	0.96

Source: Output of SPSS 20

Reliability should not be below 0.80 (Carmines & Zeller, 1979, p. 51). Coefficient α: Exemplary .80 or better; Extensive 0.70 -0.79; Moderate .60-.69; Minimal <.60 (Robinson, 1991, p. 12-18). Look for high positive coefficients e.g., .60 or above (Creswell, 2008, p. 181). Acording to Zikmund Coefficient alpha 0 meaning no consistency, 1 meaning complete consistency, scales with a coefficient α between 0.80 and 0.95 are considered to have very good reliability. Scales with a coefficient α between 0.70 and 0.80 are considered to have good reliability, and α value between 0.60 and 0.70 indicates fair reliability. When the coefficient α is below 0.6, the scale has poor reliability

From the above table 18, it is seen that the reliability value was estimated to be between the scales 0.8_0.96. Therefore, for all cases the scales used by the research are very good reliable for data analysis.

3.7 Methods of data analysis

The studies were used principal component analysis of likert scale data. Descriptive statistics were employed to analyze data and to conduct document source.

The data presentation was conducted based on Percentages, standard deviations, average, Tables, and Figures to understand the data. Data may also be used to examine the data in graphical format, to obtain additional insight regarding the messages within the data and to help clearly and efficiently communicate the message to the audience. Data visualization uses information displays such as tables and charts to help communicate key messages contained in the data. Tables are helpful to a user who might lookup specific numbers, while charts (e.g., bar charts or line charts) may help explain the quantitative messages contained in the data. The interviwer results are analyzing descripitively as a suporting of likert item questions analysis. The secondary data were analysized using dicripitive stastics analysis.

Principal component analysis is a variable reduction procedure. It is useful when you have obtained data on a number of variables (possibly a large number of variables), and believe that there is some redundancy in those variables. In this case, redundancy means that some of the variables are correlated with one another, possibly because they are measuring the same construct. Because of this redundancy, you believe that it should be possible to reduce the observed variables into a smaller number of principal components (artificial variables) that will account for most of the variance in the observed variables (Wood, 2009).

Chapter Four

Data Analysis and Discussion

Introduction

This chapter presents the detail analysis make to identify the challenges of tax audit adminstration based on the techniques and procedures identified in the third chapter. As it was mentioned earlier, data collections was using questionnaires, interviews and reviews of secondary data. From the total 152 Questionnaires disturbuted to tax auditors 138 Questionnaires are collected. That is the response rate is 90.78 percent. The chapter includes the summaries of data using graphs, tables and charts, different description of values and interpretations.

4.1 Background information of respondents

From table1 out of the total 138 respondents, 54.3 percent has females and 45.7 percent were males. Regarding educational level, 89.1 percent of respondents were BA degree holder, and 6.5 percents achive deploma and 4.4 percent attended masters. 71.7 percents of respondents studied Accounting, 4.4 percents of respondants studied Finance, 9.4 percents of respondants studied Management and 11.6 percents of respondants attended Economics. The rest 2.9 percent of respondents studied other fields.

Table1. Background information of respondents

Variables	N = 138	Count	percent
sex	male	63	45.7
	female	75	54.3
Highest level of education	Certificate	-	
	Diploma	9	6.5
	BSc/BA	123	89.1
	MSc/MA	6	4.4
Field of study	Accounting	99	71.7
	Finance	6	4.4
	Economics	16	11.6
	Management	13	9.4
	Other	4	2.9
Audit experiance	Less than 3 years	52	37.6
	3-6 years	37	26.8
	6-9 years	23	16.6
	9-11 years	17	12.3
	Above 11years	9	6.7

Source: Survey result, 2017

4.2 Performance of the branches

Tax administration is a complex and dynamic responsibility. On a regular basis, leaders are faced with new issues, conflicting priorities, taxpayer compliance and emerging commitments (Thomson, 2008). As Berhan and Jenkins (2005) noted, governments of developing countries are eager to create modern tax systems because of weak tax administrations, and sometimes have experimented with tax administration mechanisms that inflict higher compliance costs on the private sector. An effective tax audit program is a broad coverage of taxpayer groups (by size and sector) and compliance issues (Harrison and Krelove, 2005). In a fairly well established tax system, audit rate of 15 to 20 percent of registered traders a year is sufficient (Tait, 1988). However, Addis Ababa small tax payer branches audited only 5,004 taxpayers out of 79,150 registrants (AATASD, 2017). Thus, the audit rate is 6.3 percent which is low and insufficient audit rate in Adiss Ababa small tax payer branches. The low audit rate (coverage) might be due to conducting extensive comprehensive audit mainly on taxpayers those with large tax revenue and complex transactions, along with insufficient audit resources including qualified tax auditors, and equipments such as computers.

According to table 2 tax audit revenue collected, the audited file and audit rate performance of the city in 2013/2014 was 126, 67 and 12 percent respectively. Tax audit revenue collected, the audited file and audit rate performance of the city in 2014/2015 was 68.4, 72.2 and 4.4 percent respectively. Tax audit revenue collected, the audited file and audit rate performance of the city in 2015/2016 was117, 64.5 and 5.1 percent respectively. Finally, tax audit revenue collected, the audited file and audit rate performance of the city in 2016/2017 was 66, 76.6 and 6.3 percent respectively.

Generally the audit coverage of tax audit in Addis Ababa small tax payer branche is low. Even if the audit coverage is low the revenue collection from auditing tax payer files are high. It indicates the leader doesnt plan properly because it doesn’t make wide percentage gaps of revenue collection performance. Even if the plan was error it must be up dated and corrected in 3, 6, and 9 months. The plan must be flexiable, but doesn’t do in the study area. Circumstances during an audit may necessitate a change to the plan. Additional focus areas may be added, additional resources may be required, or scope of audit may be reduced if no concerns are revealed in key focus areas. The reasons for these changes need to be documented, endorsed by the auditor’s supervisor, and recorded during auditing tax payer files (Biber, 2010).

Table2. Audit Performance of Addis Ababa small tax payer branches

years	No of taxpayers	Plan and implementation in file				Plan and implementation in millions		
		Plan in files	Implement in file	Inmplement In %	Audit Coverage in %	Plan in (million)	Implement in (million)	Inmplement in%
2013/2014 (9 month)	35,033	6304	4204	67	12	2,789.44	3,197.52	126
2014/2015	76,735	4,686	3,382	72.2	4.4	1,072	733	68.4
2015/2016	77483	6,169	3,979	64.5	5.1	833.69	977.39	117
2016/2017 (10 month)	79,150	6,530	5,004	76.6	6.3	1,306.42	862.67	66

Source: AATASD, 2017

4.3 Type of audit implemented, type of business sector audited and methods of tax payer's income verification

The scope and nature of any audit activity undertaken for a particular taxpayer will depend on the available evidence pointing to the likely risks of non compliance and a taxpayer's prior history. Extensive audit inquiries may also be justified simply because a taxpayer's financial and /or business activities are unusually complex. Periods under examination: Audits can focus on one financial year or accounting period, or be extended to cover multiple fiscal periods. An audit can focus on specific parts of the taxpayer's activities (such as sales, goods in stock etc), specific incidents or transactions or activities (such as those carried out in a branch or subsidiary), or specific tax obligations. An audit can vary in its level of detail. Sometimes the taxpayer's affairs are examined in detail and in other situations, subject to the level of risk perceived, merely superficially. Location of audits: Tax audits can be conducted in different locations. Sometimes there is a need to carry out the audit at a taxpayer's business premises; in other situations, the books and records required to complete an audit can be collected by, or sent to, the revenue body and the audit work performed in the office. Tax audits can be categorised as 'field audits' or 'office or desk audits' on this basis. Given that audits can vary in terms of their scope and intensity revenue bodies should have a clear policy on the types (and numbers) of audits to be conducted, and the circumstances in which specific types of audits are to be carried out, so that audit officials (including managers) understand what is expected of them (OECD,2006).

Acording table five, 63.8 percent of respondants agreed that comprehensive audit is most applicaple type of audit. 30.4 percent of respondants believe desk audit is applied for auditing tax payer's statements. Field audit 13.8 percent and registration chek 11.6 percent of respondants used in their branch. This is similar result to Mihiret, 2011 the diference is that in this study area the remaining type of tax audit such as Fraud investigation audit, Issue audit, Advisory audit, and Refund audit can't implement in their branches.

The survey results showed that AASTPB select service and construction business sectors (95 percents of respondants) for tax audit followed by merchandising business sectors (85.5 per cent of respondents). 16.7 percent of respondant shows manufacturing business sector are selected for audit. 11.6 percent of respondants belive financial business sectors selected for audit file. From the interview result more audit revenue is collected from service and construction business sector due to submission of un-related cost with forgid reciepts in their tax declaration report, therefore, in order to achive the audit revenue objective auditors more concentrate on service and construction business sectors. The result are diferent from Mihiret (2011) which investgate merchandising enterprises business sector was more selected for tax audit.

Table 3 Type of audit and type of business sector audited

Types of audit performed	Number of respondants	Respondants in % from total	Types of Business sector selected	Number of respondants	Respondants in % from
Desk (office) audit	42	30.4	Manufacturing enterprises	23	16.7
Field audit	19	13.8	merchandising enterprises	118	85.5
Comprehensive audit	88	63.8	financial sectors	16	11.6
Registration check	16	11.6	Service enterprises and construction	131	95
Fraud investigation Issue audit, Advisory audit, Refund audit	-	-	Other sectors	21	15.2

Source: Survey result, 2017

Comprehensive audit is all encompassing in scope and entails an in depth examination of all information relevant to the calculation of a taxpayer's tax liability for all tax type for a given period.

Given the broad scope, comprehensive audit is typically costly to undertake in terms of time and resources, and thus reduces the rate coverage of taxpayers that could otherwise be audited (OECD, 2006). In addition, as Tait (1988) stated, such excessive examination of taxpayer data may create collision between taxpayers and tax official, and auditors‟ error in such examination may also damage business activity that result in negative impact on the economy, tax system in particular. The nature of audits conducted should reflect the risks to be addressed and desired audit coverage of the taxpayer population. For instance, it is inappropriate to conduct all audits on the basis of comprehensive examination of documentation across all tax obligations and all periods that could be open for amendment. Such an approach will invariably waste resources targeting compliant taxpayers and limit the number of audits that can be undertaken. A balanced operational audit plan will optimize resource usage and coverage by utilizing a wide range of audit 'products' (Biber, 2010).

4.3.1 Selection of audit file based on category type and times of auditing

Regarding the size of taxpayers selected for audit, most of the respondents (71 per cent) replied that Addis Ababa small tax apyer branches selected all catagory taxpayers for audit purpose. 52.9 per cent of respondants believe category A tax payers selected for audit. The result of the study is different with Miiret, (2011) which is found category A tax payers selected for audit purposes.

Further, the response of 37.9 percent, 23.2 percent, 23.2 percent and 18.1 percent of respondants belive every business audited when the tax payer asking for any service, three years, above four years and two years respectively. Every business audited when the tax payer asking the services like closing, business type change, change of name, saling permanent properties are aplied. Therefore, tax auditors invest their time on auditing tax payers asking for service rather than selecting risk based criterias.

Table 4 category of tax payer and time of audited

category of taxpayers are most usually audited	Number of response	%ge of response	Every business audited in	Number of response	%ge of response
Category A	73	52.9	1 year	-	
Category B	23	16.7	2 year	25	18.1
Category C	31	22.4	3 year	32	23.2
all	98	71	Above 4 years	29	21
			When the tax payer asking for any service	52	37.9

Source: Survey result, 2017

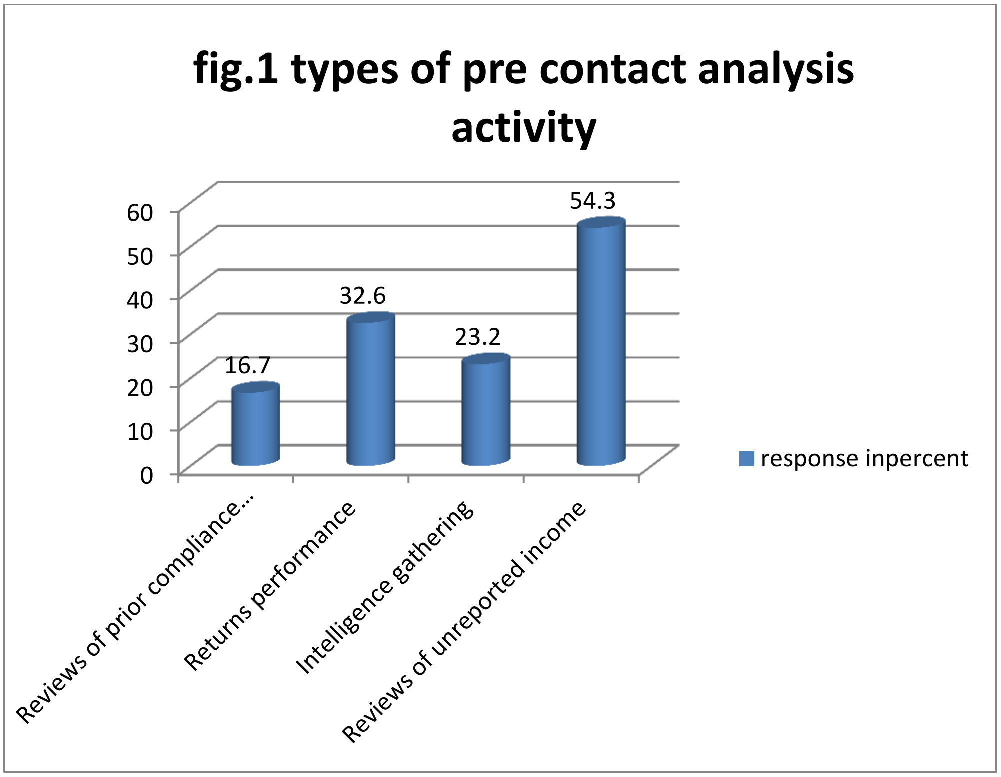
From the table5 below 37.7 percent of respondants replied selection of audit file is based on the availability of resource for tax audit. 31.9 percents of respondants believe selection of audit file is based on Screening, case review and data mining techniques. 28 percent of respondants states selections of audit file are based on Taxpayers' high tax potential Series evasion and fraud. 26 percent of respondants agreed selection of audit file is based on automated risk scoring system of compliance risk. 19.6 percent of respondants their own knowledge of tax payer's behavior and environment manually are the base of selecting audit file.

Table 5 Bases of selecting audit file

Statements	Number of respondants	Respondants in %
Taxpayer's cooperation to give essential information necessary for performing an audit	21	15.2
Automated risk scoring system of compliance risk	36	26
The availability of resource for tax audit	52	37.7
Taxpayers' high tax potential Series evasion and fraud	39	28.3
Their own knowledge of tax payer's behavior and environment manually	27	19.6
Screening, case review and data mining techniques	44	31.9
Randomly without any analysis	16	11.6

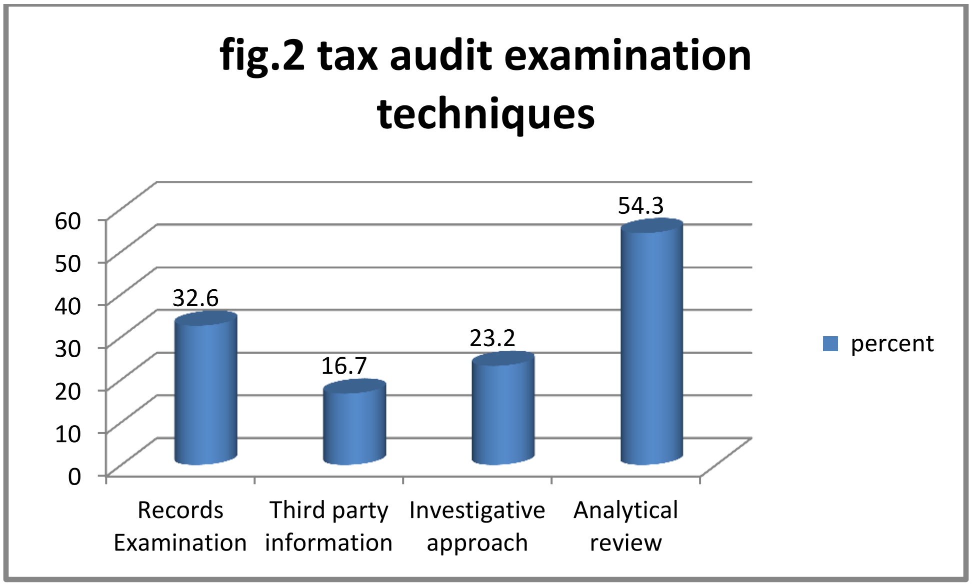
Source: Survey result, 2017

From the figure 1 54.3 percent of respondants believe review of un- reported income is more applied types of pre contact analysis. 32.6 percent of respondants belive that return performance is an aplied of pre contact analysis. 23.2 percent of respondants agree on inteligence gathering is a pre contact analysis performed. The remaining 16.7 percent of respondants believe review of prior compliance history is aplied for pre contact analaysis.



Source: Survey result, 2017

Feom the figure 2 below 54.3 percent of respondants indicate that the branch uses analytical review of tax audit examination techiniques. 32.6 percent of respondants believe their branch uses record audit examination techiniques. 23.2 percent of respondants belive their branch uses invesgtigative approach of tax audit examination techniques. The remaining 16.7 percent of respondats indicate third party informsation used for tax audit examination.



Source: Survey result, 2017

From the table below 73.2 percent of respondants conclude review of financial statements and returns are the first test applied to check the accuracy of tax returns. 44.9 percent of respondants by observing, discussing and reviwing documents of taxpayers used to check the accuracy of returns. 29 percent of respondants believe Examination of information from third party such as financial institutions are aplied to check accuracy of tax return. 22.4 percents of respondants answer Examination of tax payers' record such as books and documents are aplied to check accuracy of returns. 10.1 percents of respondants believe Physical checks of current transactions, vouchers, assets and other aspects are applied to check accuracy of returns. 29.7 percent of respondants explained that marks up methods are used to verify tax payer's income. 25.4 percents of respondants agree on bank deposit and cash expenditure used to verify tax payer income. The other methods Source and Application of Funds Method and Unit and Volume Method 15.9 percent, Net worth method accounts 13 percent. Thus the methods used to verification of taxpayer's income are limited. The small tax payer branch doesn't use all methods equally. As explained in interview tax payers doesn't separate bank deposit with their business and other source of income as a result bank deposit method not much used.

Table 6 Type of tests and methods to check the accuracy of tax returns

statements	Number of respondants	Respondants in % from total	indirect methods used to verify tax payers income	Number of respondants	Respondants in % from
Review of financial statements and returns	101	73.2	Source and Application of Funds Method	7	15.9
Observing, discussing and reviewing documents of taxpayers	62	44.9	Bank Deposits and Cash Expenditures Method	10	25.4
Physical checks of current transactions, vouchers, assets and other aspects	14	10.1	Markup Method	11	29.7
Examination of tax payers' record such as books and documents	31	22.4	Unit and Volume Method	7	15.9
Examination of information from third party	40	29	Net worth method	5	13

Source: Source: Survey result, 2017

4.4 challenges of tax audit adminstration

4.4.1 Challenges of perusing education

The recruitment and retention of qualified accountants and auditors is the most significant in order to provide a competent service and increase the amount of tax audit revenue and compliance tax payers. Many of the country's most talented and ambitious young people need better payment and/or better opportunity of pursuing education in order to retain in a given organization. One of the problems (challenges) encountering auditors of government organizations have been the lack of an opportunity to pursue education. According to the response of questionnaire only 26 percent of respondants believe that the organization provides incentives for improving their educational level. The remaining 74 percent respondents argued that there is no incentive made helping them improve their educational level. In addition, as it has been shown on the chart below, there is no positive relation ship between the employees' educational level and their experience.

For example; from the table 1 about 89.1 percent of the total respondents having first degree, 64.4 percent of them have an experience of less than six years. But only 5 percent of these respondents have first degree even if they have more than 11 years experience.

4.4.2 Challenges of staff capacity and training

Educational specialization in a given field is important, but a blend of skills is necessary to assure that the audit function can perform its duties efficiently and effectively. Auditors must rely on technical expertise, professional judgment and a good understanding of how an error or fraud is committed in order to detect misstatements. Inadequate staff capacity and training can therefore have a severe effect on the ability of tax audit to address their objective(s).

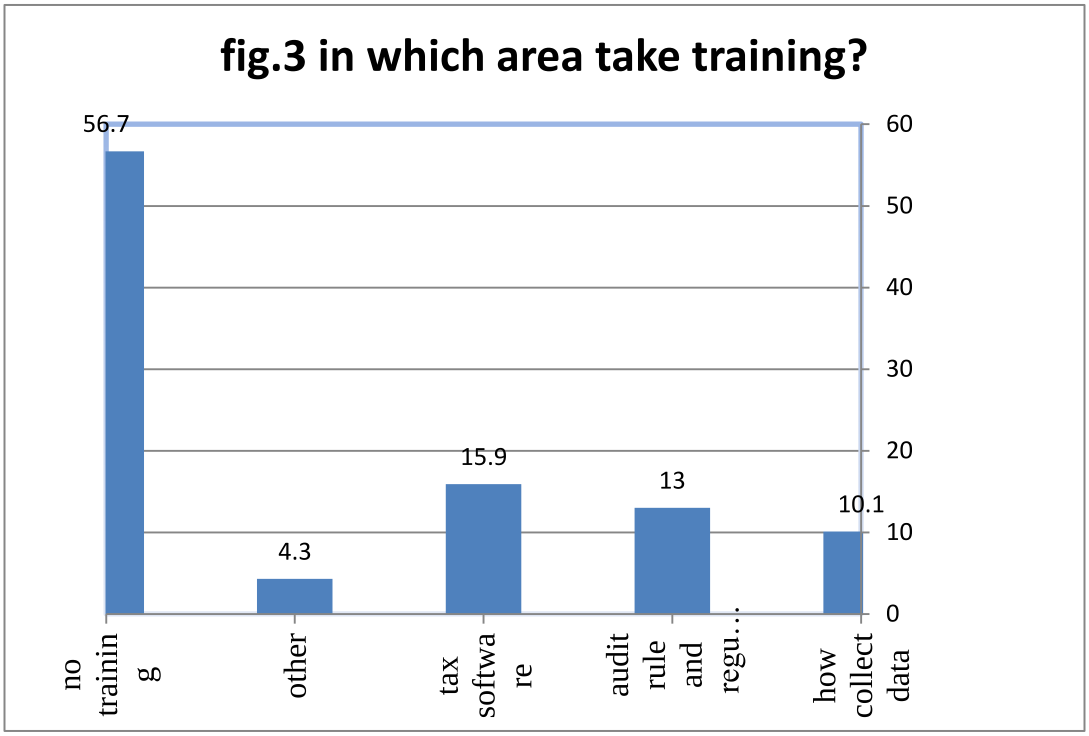
From the questinarie 52.9 percent of the respondant believe the branch has no providng training and development courses. 43.4 percent of the respondant believe the branch provides training and development course. 48.9 percent of respondant replied there is no identification of gaps and corrective action taken. 48.7 percent of respondats agree on the idea of the branch identifay capablity gaps and take corrective actions. It has been shown on the table 3 87 percent of respondants believe tax audit department dosnt have right number of quality staffs. The remaining 13 percent of respondants agree on the idea of right number and quality staffs in their branch.

Table 7 capablity and training of respondants

Statements	percent				
	Strongly agree	agree	neutral	disagree	Strongly disagree
The branch provide initial training, ongoing training and development courses	15.9	27.5	3.7	33.3	19.6
capability gaps are identified and corrective action taken	19.5	30.2	1.4	29.3	19.6
Tax audit department have the right number of high-quality staffs	-	13	-	45.7	41.3

Source: Survey result, 2017

According to figure 1 15.9 percent respondatas that taking training on the area of tax software, 13 percent related to audit rule and regulation and 10.1 percent got training on data collection methods. Most of the respondants that are 56.7 percent of respondants are not taking training.



From the table below Yeka, Kirkos and Nifas silk lafito sub cities greater than 50 percent of the required number of auditors are not hired. Bole, Akaki kality and Addiss ketema sub cities between 40 and 50 percent of the required number auditors are not hired. The total numbers of auditors required in Addis Abab small tax payer branches are 409 but actually now there are only 245 auditors are exist. The remaining 164 auditors or 40.1 percent of the total required did not hire.

Table 8 staff avilablity of auditors

No	Small Tax payer branch	No of auditors required	No of auditors hired	Un filled job position	% ge
1	Adiss ketema sub city	67	41	26	38.8
2	Akaki qality subcity	27	16	11	40.7
3	Arada sub city	40	32	8	20
14	Bole sub city	61	36	25	40.9
5	Gulele sub city	24	20	4	16.6
6	Lideta sub city	38	18	10	26.3
7	Kirkos sub city	61	24	37	60.6
8	Kolfe qeraniyo sub city	33	24	9	27.2
9	Nifas silk lafto sub city	34	12	22	64.7
10	Yeka sub city	24	22	12	50
	Total	**409**	**245**	**164**	**40.1**

Source: AATASD, 2017

4.4.3 Challenges related to rule and regulation

The efficient and effective conduct of audit activities requires that a revenue body ‘s audit and investigation staff have appropriate powers of access to information held by the taxpayer and other parties so that taxpayers liabilities reported in their returns can be properly verified or, in the absence of returns, be accurately established. There should also be an appropriate regime of sanctions to punish and deter non-compliance (OECD, 2006).

From the table below 52.8 percent of respondats argued the branch have appropriate power of access to information held by the taxpayers and other parties. The remaining 47.2 percent of respondants belive there is no legal fram work on having appropriate power of access to information held by the taxpayers and other parties. 64.5 percent of respondants belive tax payers are obligated to keeping books and records; where as 29 percent of respondants believe there is no enforcement rule on taxpayers keeping books and records. From the total respondants 62.3 percents disagree on giving tax officials access to indirect income verification of tax payers. Where as 34.1 percent agree on giving tax officials access to indirect income verification of tax payers. 51.4 percent of respondats didnt belive the branches have a sanction or penality for non compliance tax payers.

70.4 percent of resondants belive their branch office audit system is not sufficiently promoting (motivation sceme) voluntary compliance taxpayers and effective auditors. The remaining 24.6 percents of respondants are agreed on the idea of promotion legal framwork of the auditor as well as the compliance tax payers.

From 2007 Addis Ababa branches tax audit supporting and monitoring directorate report shows that there is a legal challenges wich are not ratified in order to facilitate the audit work of branches. From them profit determination, how they use not recorded on tax payers statement income but get in banks and how collects tax on meat. There fore the respondants response and the secondary data shows there is a big challenge in legal frame work of the branches. If there is promotion strategy on compliance tax payers the non compliance are learn and return from their non compliance behaviour, but the branch lacks this. The rule and regulations are in some extent dosnt give power to auditors in order to access information held by the tax payers and other as a result the tax revenue collected from tax audit is not much enough too.

Table 9 challenges of legal framwork

Statements	percent				
	SA	A	N	DA	SD
The branch have appropriate powers of access to information held by the taxpayer and other parties	19.5	33.3	-	32.6	14.5
Tax payers obligated to keeping books and records	27.5	37	6.5	20.3	8.7
Giving tax officials access to indirect income verification of tax payer	13.8	20.3	3.6	40.6	21.7
There is a sanction or penality for non compliance tax payers	18.8	29.7	-	26.8	24.6
Formal statements of taxpayers' rights and obligations- an audit context	15.9	28.3	9.4	35.5	-
The branch office audit system is sufficiently promoting (motivation sceme) voluntary compliance taxpayers and effective auditors	-	24.6	5	37	33.4

Source: Survey result, 2017

4.4.4 Challenges of tax audit adminstration related to Auditee

According to table .4 60.9 percent of respondants believe the auditee have not goood attitude and cooperation with tax system. The remaining 39.1 percent of respondant agree on auditee have good attitude and coperation with tax system. 51.6 percent of respondants agreed on the idea of auditee has very willing to give essential information to auditors. 47.1 percent of respondant did not belive tax payers have very willing to give essential information for audit purpose. 55.8 percent of respondants states that the auditee easily understand and be aware of the rules, forms and instructions regarding tax audit, 34.8 percent of respondants did not agree that The auditee easily understand and be aware of the rules, forms and instructions regarding tax audit. Whre as the remaining 9.4 percent of respondants are neutral. 68.9 percent of respondants didn't agree on the statement of delivery of information and data by auditee is timely provided. The remaining 31.1 percent of respondants agreed on delivery of information by auditee is timely provided.

Table 10 challenges of tax audit admnstration related to auditee

Statements					
	SA	A	N	DA	SD
The auditee have good attitude and cooperation with the tax system	11.6	27.5	-	45.7	15.2
The auditee has very willing to give essential information	20.3	31.3	2.3	40.6	6.5
The auditee easily understand and be aware of the rules, forms and instructions regarding tax audit	23.2	32.6	9.4	27.5	7.3
delivery of information by auditee's is timely provided	8.6	22.5	-	48.6	20.3

Source: Survey result, 2017

4.4.5 Challenge in collecting the necessary information

An auditor can not come to a final conclusion if there is a limitation in the scope of an audit due to a restriction on information access. Auditors need to have complete and accurate evidence to conclude their opinions and determine responsibility for failure, incompetence or deceit. Richiute (1982) also noted that sufficient competent evidential mater is the only basis for reaching reasonable and informed audit conclusions. Barriers of complete access to information can have an adverse impact on auditor's performance. According to the responses collected using interviews and questionnaires there is a limitation for access to information due to auditee's lack of knowledge; fear of accountability; and lack of confidence.

The first reason for not timely delivery of information by auditee’s is fear of accountablity as stated by 54.3 percent of respondants. Other reason is lack of confidence stated by 48.5 percent of respondants and finally 15.2 percents of respondants answered the reason for the tax payers not timely delivery of information is lack of knowledge.this shows that the auditee has not lack of knowledge but if they engaged in tax evasion and fraud they fear to providethe document timely. Therefore, the quality of audit work and the reliability of their report have been hindered. Information which is not timely delivered can not be useful for decision making and it may be intentionally changed or cooked by dishonest employees.

4.4.6 Challenges of tax audit adminstration related to auditors

From the total respondants 42.1 percent of respondants dis agree on statements that auditors have detail, comprehensive and responsive plan for the nature, timing and extent of the audit. 32.6 percent of respondants belive that auditors have detail, comprehensive and responsive plan for the nature, timing and extent of the audit. The remaining 15.2 percent of respondants are neither agree nor disagree. 42.1 percent of respondants belicve that tax auditors of the branch are not free from corruption. 34.2 percent of respondants agreed that tax auditors have free from any corruption practice. Where as the remaining 21.7 percents of respondants are nutral. 52.9 percent of auditors agreed on the statement of Auditors give sufficient education to the taxpayers about the tax laws and regulations during auditing. 42.7 percent of respondants belive tax Auditors didn’t give sufficient education to the taxpayers about the tax laws and regulations during auditing. 56.5 percent ofd respondants stated that there is a close relationship between the taxpayers and tax auditors.

Table 11 challenges of tax audit adminstration related to auditors

Statements	percent				
	SA	A	N	DA	SD
Auditors have detail, comprehensive and responsive plan for the nature, timing and extent of the audit.	16.6	26	15.2	31.2	10.9
tax auditors are free from any corruption	17.4	26.8	21.7	23.2	10.9
Auditors give sufficient education to the taxpayers about the tax laws and regulations during auditing.	32.6	20.3	4.3	27.5	15.2
There is a close relationship between the taxpayers and tax auditors.	23.2	33.3	5	26	12.5

Source: Survey result, 2017

4.4.7 Challenges of tax auditors capablity management

Without competent staff, tax audit activities will not achieve their objectives. Performance management is an important tool for shaping auditor behaviour. Competency models and competency improvement activities help develop and manage the audit workforce. Both initial and ongoing training is essential for all audit staff (OECD, 2006). International, national, regional or local exchange of ideas, knowledge and experience is an effective means of raising the quality of audit, harmonizing standards, sharing best practices and generally helping audit organizations to fulfill their mandate. In addition to experience sharing activities made between them selves, government auditors need to liaise closely with other government organizations or agencies in order to ensure thatskills and insights are shared. Tax auditors are expected to aid managers in doing their jobs, and at the same time to independently evaluate management's effectiveness. According to Bou-Raad, (2000) argued that the strength of a tax audit department must be assessed with respect to the level of independence it enjoys from management and from operating responsibilities.

According to table 23 68.1 percent of respondant justifies the branch have Job descriptions, functional descriptions and/or competency profiles using task-related competencies, where as the remaining 31.9 percents of respondants disagree on the idea of the branch have Job descriptions, functional descriptions and/or competency profiles using task-related competencies. 88.1 percent of respondants belive there is not job rotation/ placement program of auditors applied in the branch. The remaining 11.9 percent of respondant nither do not agree nor does dis agree on this statement. 55.8 percent of respondat responds Applications of promotion are based on merit and competence. Where as, the remaining 44.2 percent of respondants dis agree on Applications of promotion are based on merit and competence. 54.3 percent of respondants belive the Administrations don't use knowledge-sharing initiatives to help increase the capability of staff through the sharing of best practice, techniques, learnings and experiences. 36.9 percent of respondants belive the Administrations use knowledge-sharing initiatives to help increase the capability of staff through the sharing of best practice, techniques, learnings and experiences.

87 percent of respondants believe Tax audit department doesn't have the right number of high-quality staffs where as the remaining 13 percent of respondants believe Tax audit department have the right number of high-quality staffs.

73.8 percent of respondant argued the organization doesnt provides incentives for improving their educational level of tax auditors where as the remaining 26.2 percent of respondants argued the organization provides incentives for improving their educational level of tax auditors. 52.8 percent of respondants belive the branch doesn't provide initial training, ongoing training and development courses. 53.5 percent of respondants believe capability gaps are identified and corrective action taken in the branch where as the remaining 46.5 percent of respondants believe in the branch capability gaps are not identified and corrective action are not taken.

Table 12 challenges of auditors' capablity managment

Statements	**percent**				
	SA	**A**	**N**	**DA**	**SD**
The branch have Job descriptions, functional descriptions and/or competency profiles using task-related competencies	29.7	38.4	-	24.6	7.2
Job rotation and/or placement programs of auditors are aapplied	-	-	11.9	54.3	34.8
Applications of promotion are based on merit and competence.	25.4	30.4	-	27.5	16.7
Administrations use knowledge-sharing initiatives to help increase the capability of staff through the sharing of best practice, techniques, learnings and experiences.	9.4	27.5	8.6	35.5	18.8
Tax audit department have the right number of high-quality staffs	-	13	-	45.7	41.3
the organization provides incentives for improving their educational level	11.6	14.5	-	47.8	26
The branch provide initial training, ongoing training and development courses	15.9	27.5	3.6	33.3	19.5
capability gaps are identified and corrective action taken	19.5	34		29.7	19.5

Source: Survey result, 2017

4.4.7 Challenges of Audit technique

There should be a comprehensive documented set of audit policies and procedures that is readily accessible to all audit staff. Audit policies and procedures should be based on principles of accuracy, efficiency, fairness, objectivity, transparency, completeness, consistency, and defensibility. Revenue bodies require a systematic approach to the planning of individual tax audits.

The efficiency and effectiveness of audit activities can be greatly facilitated by a broad range of support tools (e.g. industry benchmark data, business specific guidance materials, IT facilities, and the use of indirect income measurement techniques, an EDP audit capability) OECD, 2006).

From the table below 60.8 percent of respondants dis agree on tax audit is performed based on audit manual and IT tools. 32.6 percent of respondants believe Audit is performed based on audit manual and IT suported tools. The remaining 6.6 percent are nutral. With respect to Usage of computer based audit 64.5 percent of respondant disagree, 22.5 percent of respondants strongly disagree and the remaining 13 percent of respondants are neutral. 55.1 percent of respondants belive the tax audit management doesn't have detail, comprehensive, responsive plan and cascade timely to auditors. The remaining 44.9 percent of respondants said that the management have detail, comprehensive, responsive plan and cascade timely to auditors. Statements of audit work to be started and completed with in a predetermined time frame responsed that 58.7 percent of respondants dis agree, 36.9 percent of respondants are agree and the remaining 4.3 percent of respondants are neutral. 56.5 percent of respondants belive that the administration didn't have a risk-based tax audit strategy by identified risk scoring criteria. 84.8 percent of respondants said that the taxpayer population cant appropriately categorized according to relative revenue risk. The remaining 15.2 percent are neutral.

Table 13 challenges of audit techniques

Statements	Percent				
	SA	A	N	DA	SD
Audit is performed based on audit manual and IT suported tools	-	32.6	6.6	55	5.8
computer-based audit can be performed	-	-	13	64.5	22.5
The management have detail, comprehensive, responsive plan and cascade timely to auditors	20.3	24.6	-	31.9	23.2
audit work to be started and completed within a predetermined time frame	8.6	28.3	4.3	32.6	26.1
the administration have a risk-based tax audit strategy by identified risk scoring criteria	10.9	30.4	2.2	40.6	15.9
the taxpayer population been appropriately categorized according to relative revenue risk	-	-	15.2	49.3	35.5

Source: Survey result, 2017

4.4.9 Challenges of performance measurement and evaluation of audit activities

According to table 3 59.4 percent of the respondants answered yild and productivity measure are used for atax audit performance measure. 53.6 percent of the respondant belive the performance measure used for tax audit is volume and couverage measure. Other methods of measuring performance of tax audit are lower percentage answered by respondants. These measures are quality measure 19.6 percent, time measure 13 percent, Measures of customer awareness and attitude to audit and non-compliance 15.2 percent, tax gap measure 11.6 percent and Measures of changes in customer behaviour over time 8 percent. 76.8 percent of respondants belive tax audit activities can be evaluated based on Character of management and auditors. 45.6 percent of respondant belive evaluation of tax audit activities is based on Taxpayesr education provided. According to the response of 37.6 percent of respondant evaluation of audit activity are based on the amount money assessed. Other tax audit evaluation measures got lower percentage from respondant this measure are Compliance tracking analysis (comparing audited to non audited tax payer) 23.2 percent, taxpayers' compliance behaviour 33.3 percent, taxpayer self-corrects 4.3 percent and Survey of audited taxpayers 15.2 percents.

the most freqent evaluation measure is character of management and auditors. Also in both performance measurement and evaluation methods are limited to some type of measures and methods.

Table 14 performance measurement and evaluation methods

performance measurement	Number ofrespons e	%ge of respo nse	Evaluation methods	Number of response	%ge of respo nse
Quality measure	27	19.6	Based onThe amount money assessed	52	37.6
Yield and productivity measures	82	59.4	Character of management and auditors	106	76.8
Time measures	18	13	Compliance tracking analysis (comparing audited to non audited tax payer)	32	23.2
Volume and coverage measures	74	53.6	taxpayers' compliance behaviour	46	33.3
Measures of customer awareness and attitude to audit compliance	21	15.2	Taxpayer education provided	63	45.6
Tax gap measures	16	11.6	taxpayer self-corrects	6	4.3
Measures of changes in customer behaviour over time	11	8	Survey of audited taxpayers	21	15..2

Source: Survey result, 2017

4.4.10 Challenges of organizational structure

56.4 percent of respondants belive the small tax payer branch in adiss ababa didn't have well organized structure and suitable office for tax audit. The remaining 43.6 percent of respondants blive the branch have well organized structure and suitable office. 55.1 percent of respondat are agreed on the statement of organizational structure of the branch enable better communication with senior management. Where as 43.5 percent of respondants are did not agree. 86.2 percent of respondants are the branch doesn't establish an independent unit for audit quality assurance. The remaining 13.8 percent of respondants are neutral.

Table 15 challenges of organizational structure

statements	percent				
	SA	A	N	DA	SD
The branch have well organized structure and suitable office	17.4	26.1	-	31.9	24.6
organizational structure of the branch enable better communication with senior management	25.4	29.7	1.4	20.3	23.2
The branch established an independent unit for audit quality assurance	-	-	13.8	56.5	29.7

Source: Survey results, 2017

4.4.12 Challenges of management support

The tax administration apparatus can be viewed as a firm where inputs such as labor and infrastructure are used to produce the output of tax revenue. As such, a successful tax administration must have the appropriate level of inputs to fully function (Bird 2004). Particularly in developing countries which typically have low civil services salaries and limited levels of investment in public infrastructure, it is difficult to recruit qualified and educated staff and provide them with the tools, such as computers, to efficiently carry out their tasks (Devas, Delay and Hubbard 2001). Given such resource constraints, tax administrations can not fully perform audit activities or even collection activities. As a result, tax revenue that would be collected by a fully funded tax administration is forgone and the tax gap widens. A number of empirical studies have found top management support for quality to be a key factor in its improvement (for example, Dale and Duncalf 1985; Ebrahimpour and Lee 1988). Tax Audit departments must have the resource needed to hire the right number of high-quality staff, to keep up-to-date in training and development, to acquire and maintain physical resources like computers, and so on.

According to table 5 below 72.5 percent of respondants dosn't agree on logistical support of material and equipment (computer, cars..) for audit program. 22.6 percent of respondants believe there is enough logistical support of material and equipment (computer, cars.) for audit program. 73.9 percent of respondants believe overall tax audit strategy is not improving compliance tax payers. 15.2 percent of respondants are aggreed on overall tax audit strategy improving compliance tax payers.

63.6 percent of respondants belive Tax audit coordinators and team leader are not overseeing the selection, planning, execution and conclusion of every audit undertaken in their jurisdiction. Where as the remaining 36.4 percent of respondants agreed on Tax audit coordinators and team leader overseeing the selection, planning, execution and conclusion of every audit undertaken in their jurisdiction. 73.2 percent of respondants believe that before auditing materiality and collectability can't be considered. 82.6 percent of respondants believe selected audit finding information is not provided for the public. 41.3 percent of respondants doesn't agree on Top managers' have good attitudes and behaviors to the audit department. 55.8 percent of respondants also did not agree on Auditors conduct their work without any interference.

According to table 16, 68.9 percent of respondants belive the tax administrator doesn't aware of anti-fraud or tax avoidance strategies. The remaining 31.1 percent of respondants belive the tax administrator has aware of anti-fraud or tax avoidance strategies. 50 percent of respondant argued that the branch doesn't have regulations to preclude individual auditors from repeatedly auditing the same business where as the remaining 44.2 percent of respondants believe the branches have regulations to preclude individual auditors from repeatedly auditing the same business. 51.5 percent of respondants argued that there is no high degree of planning, monitoring and evaluation where as the remaining 48.5 percent of respondants belive there is high degree of planning, monitoring and evaluation implementation in the branches.

Table 16 challenges of management support

Statements	Percent				
	SA	A	N	DA	SD
There is logistical support of Enough material and equipment (computer, cars..) for audit program	4.3	18.1	5	49.3	23.2
overall tax audit strategy improving compliance tax payers	-	15.2	10.9	39	34.9
Tax audit coordinators and team leader overseeing the selection, planning, execution and conclusion of every audit undertaken in their jurisdiction	11.6	24.6	-	53.6	10.1
before auditing materiality and collectability can be considered	-	20.3	6.5	48.6	24.6
selected audit finding information provided for the public	-	-	17.4	66.7	15.9
Top managers' have good attitudes and behaviors to the audit department	22.5	31.2	5	35.5	5.8
Auditors conduct their work without any interference	18.8	23.2	2.2	30.4	25.4
the tax administrator aware of anti-fraud or tax avoidance strategies	6.5	24.6	-	37	31.9
The branch have regulations to preclude individual auditors from repeatedly auditing the same business	18.1	26	5.8	35.5	14.5
There is high degree of planning, monitoring and evaluation	21	27.5	-	30.5	21

Source: Survey result, 2017

4.5 comparissions tax audit adminstration challenges

The descriptive statistics (such as mean of distribution and standard deviation of the distribution) can be employed to investigate and present an overview of from legal frame work,organizational structure, management support, work force management, audit technique,auditor and auditee challenges of tax audit adminstration in addis ababa small tax payer branch which is more observed problem. Table 18 shows the descriptive statistical results of corresponding 138 total observations of each variable in the study. It also describes the overall nature of variables employed in the study and their interpretation is presented as follows.

Table 17 Descriptive statistics out put

variables	observasion	mean	Standard deviation
Legal fram work	138	2.9	1.35
Organizational strucure	138	2.6	1.22
Management support	138	2.5	1.2
Audit techniques	138	2.45	1
Workforce management	138	2.7	1.21
Auditor contribution	138	3.2	1.37
Auditee contribution	138	2.86	1.3
Addis Ababa small tax payer branches		2.74	1.23

Source: Output of SPSS 20

According to Best, (1977), standard deviation of the score from 1-1.80 is lowest, from 1.81-2.61 is lower, from 2.62-3.41 is average/moderate, from 3.42-4.21 is good/high, and 4.22-5 is considered verygood. Besides, the decision rules used in the analysis was average mean less than 3 was considered as low, average mean equal to 3 was considered as medium and average mean greater than 3 was consideredas high (Best and khan,1995).

The mean distribution of the tax audit adminstration of the study is 2.74 which are less than 3 that are low and standard deviation statistics is 1.21, which is in between 1-1.8 that is lowest. It shows the as per the auditors perception tax audit adminstration in Addis Ababa small tax payer branches are lower. That indirectly show the challenge of tax audit adminstration is high.

The mean value of legal framework was 2.9 which are lower than the medium level 3 and its standard deviation was 1.35 which is in between 1-1.8 that is lowest. It shows the as per the auditors perception legal framwork on tax audit adminstration in Addis Ababa small tax payer branches are lower. The mean value of organizational structure was 2.8 which are lower than the medium level 3 and its standard deviation was 1.22 which is in between 1-1.8 that is lowest. So its implication is auditor's perceptions on organizational structure in tax audit adminstration are lowerly workable for the audit done in Adiss Ababa small tax payer branches. The mean value of management suport was 2.5 which are lower than the medium level 3 that is low and its standard deviation was 1.22 which is in between 1-1.8 that is lowest. So its implication is auditor's perceptions of management suport on tax audit adminstration are lower.

The mean values of tax audit techiniques are 2.45 which are lower than the medium level 3 that is low and its standard deviation was 1 which is in between 1-1.8 that is lowest.

So its implication is auditor’s perceptions of tax audit techiniques on tax audit adminstration are lower.

The mean values of workforce management are 2.7 which are lower than the medium level 3 that is low and its standard deviation was 1.21 which is in between 1-1.8 that is lowest. So its implication is auditor’s perceptions of workforce management on tax audit adminstration are lower.The mean values of tax auditors are 3.2 which are greater than the medium level 3 that is high and its standard deviation was 1.37 which is in between 1-1.8 that is lowest. So its implication is as auditor’s perceptions tax auditors doesn’t do expected from them on tax audit adminstration.

The mean values of auditee are 2.86 which are lower than the medium level 3 that is low and its standard deviation was 1.3 which is in between 1-1.8 that is lowest. So its implication is auditor’s perceptions auditee doesn’t suport the tax audit adminstration.

Chapter five

Summary, conclusion and recomendation

5.1 Summary

The purpose of this study was to examine the challenges of tax audit adminstraton using statistical analysis of descriptive statistics. The research instruments were survey questionnaires developed with convenience sampling method, interview with tax audit department head and team leaders and documentary review on the last 4 years performance of the tax audit process are applicable constructs. Before a questioner was sending to respondents they were test for reliability by 5 team leaders of the audit process. Atotal of 152 copies of questionnaire were distributed to tax auditors and however 138 copies were found to be returned and used for analysis. A tax audit is an investigation made by the tax authority in order to verify the accuracy of tax returns and attempt to detect non-compliance behavior and activities. The study applied mixed approach to get advantage on draw backs of using one approach. In the chapter four, the data instruments (questioner, interview and documentary analysis) has been analyzed and interpreted in relation with the statement of the problem and objectives of the study. Then in this chapter conclusions are made by summarizing the results stated on the data collection instruments on chapter 4 and finally make recommendations on the possible findings.

5.2 Conclusions

According to the analysis made above in the fourth chapter the researcher has identified a number of challenges which generally stated below.

One of the problems (challenges) encountering tax audit adminstration are lack of an opportunity to pursue education. There is no incentive made helping them improve their educational level and there is no positive relation ship between the employees' educational level and their experience, showing employees who stayed a long are still found at low educational level than new recruits.

There is low and insufficient audit rate in Adiss Ababa small tax payer branches. The low audit rate (coverage) might be in apropriate planing of the managers satiesfies with revenue collected and due to conducting extensive comprehensive audit mainly on taxpayers those with large tax revenue and complex transactions, along with insufficient audit resources including qualified tax auditors, and equipments such as computers.

Inadequate staff capacity and training can have a severely effect on the ability of tax audit to collect tax audit revenue. The branches have no providng training and development courses. 40.1 percent of the total required tax auditors did not hire. There is a legal challenges wich are not ratified in order to facilitate the audit work of branches. The auditee have not goood attitude and cooperation with tax system and not delivery of information and data by auditee due to auditee's lack of knowledge; fear of accountability; and lack of confidence.

International, national, regional or local exchange of ideas, knowledge and experience is an effective means of raising the quality of audit, harmonizing standards, sharing best practices and generally helping audit organizations to fulfill their mandate. But the city lacks knowledge-sharing initiatives to help increase the capability of staff through the sharing of best practice, techniques, learnings and experiences.

Tax audit is performed not based on audit manual and IT tools. There is no tax audit softwares aplied and computer-based audit performed. Managments doesn't monitor and control the tax audit as aresult audit work canot be started and completed within a predetermined time frame. The administration havn't identified risk scoring criteria.

The branches mostly don't use indirect methods to verify tax payer's income, like Source and Application of Funds Method, Bank Deposits and Cash Expenditures Method, Net worth method, Unit and Volume Method and Markup Method. There is a regulation weakness especially usage of bank deposit method. The tax payer revenue from other sources and revenue from trade are mixed in bank account, Because of this they can't apply. Most of audit file is selected based on the availability of resource for tax audit.

Most of tax audit activities can be evaluated based on Character of management and auditors. How ever yield and productivity measure are used for most tax audit performance measure But the measure of tax audit performance in the small tax payers are not used as amajor evaluation methods. The management of the organization is not suport logistical material and equipment (computer and cars) for audit program. Tax audit coordinators and team leader also lacks overseeing the selection, planning, execution and conclusion of every audit undertaken in their jurisdiction.

In general from descriptive statistics out put challenges are orderd from higher to lower firstly,challenges of audit technique secondly, challenges of management support thirdly,workforce management fourthly, organizational structure fivethly,challenges of auditee sixly,challenges of legal framework finaly, challenges of auditors.

5.3 Recommendations

On the base of the findings/conclusion derived; the following recommendation was made by the researcher. In order to improve the tax audit effectiveness, small taxpayer's office should consider the following points:

- The branch advised to work with different audit organization departments can share in each other's successes and avoid each other's mistakes. So, it is advisable if the branches cooperate with various audit institutions found in and out of the country.
- The city adopts and uses all performance measure (out put and outcome) which used them directly for evaluation methods. They don't focus only on behaviour of managements and auditors it must target the tax audit tasks.
- The city must change the tax collection strategy by implementing e-tax for all tax payers. The main computer program that the branch will adopt Interactive Data Extraction and Analysis (IDEA), all tax payers must pay, report, and coding their document (purchase and sale) in electronic software. Therefore tax auditors not afected by the auditee late data provided. Tax auditors also audit in tax audit software as a result they increase audit coverage, tax audit revenue and compliance tax payers.
- Addis Ababa small tax payer branches adopt a strategy of rotation of tax auditors who stays two years in diferent branches, which reduce unnessary relation to the auditee and minimize the coruption practice of auditors which is more applicably in OECD countries.
- In order to minimize the challenges related to pursuing education, its better if Addis Ababa small tax payer branches tries to work in harmony with educational institutions, like universities and colleges from with in and foreign countries. In addition to providing educational opportunities, these educational institutions can help the city by considering their curriculum in relation to audit needs and giving short term trainings.
- Regular supervision and orientation, and clear work divisions are necessary as they can increase the effectiveness and efficiency of the auditors and increase the quality of audit. Measures should be taken to insure that the work performed by each member of the audit team is reviewed by more senior persons to insure that it was aducuately performed and enable a proper assessment to be made.

- The AASTPB should adopt a wide range of audit methodologies rather than use of a single full comprehensive audit. The spot (issue) audit should be widely applied to increase the audit coverage.
- The management adjusts Tax auditors to concentrate more on risk based tax audit rather than service question based audit. Therefore, the branches hope to reduce the the challenges of tax payers expaired date of auditing.
- The branches must implement Strategic plans in order to provide for enhancement of auditor capabilities, audit tools, quality assurance processes, support good case management practices, data collection methods and consistent appl1ication of policies and procedures.
- The Addis Ababa small tax payer branches implement the indirect methods of verification of income using third parties information which improve the tax audit revenue collection, audit coverage and compliance tax payers.

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Saint marry University

Msc program in Accounting and Finance

Questionnaire to be filled by Tax Auditors

Dear Participant

This research is entitled "challenges of tax audit adminstration in adiss ababa small tax payer branchs". The investigator is mekonnen belay who is currently an MSc (in Accounting and Finance) student at the Saint Marry University. This questionnaire is designed to meet the objective of above research title. Therefore; the data from this questionnaire will help the researcher to obtain reliable and valid information.

Participation in this project is completely voluntary. Survey results will be recorded anonymously, and strict confidentiality will be maintained. Individual responses will not be identified in the investigator‟s MSc thesis. Do not write your name on the questionnaire. Please read each item carefully and give your honest response to each item. Your open and genuine response is highly appreciated.

For further information, please contact mekonnen belay by the following address: Tel.: +251922569300 E-mail: mekonnenbelay@gmail.com

Thank you for your cooperation!

Mekonnen belay

Instruction:-the questions are three parts the first part is related to personal back ground, the second part is related to challenges of tax audit adminstration mulitple choice questions and lastly, likert item questions related to challenges of tax audit adminstration. Put a "√" mark in agiven box

1. Gender: Male □ Female □

2. Highest level of education achieved: Certificate □ Diploma □ BSc/BA □ MSc/MA and above□ others □, Please specify _________________

3. Field of study (multiple answers are possible):

Accounting □ Finance □ Economics □ Management □ others □, Please specify________

4. How long did you work as an auditor?

Less than 2 years □ 2-4 years □ 4-6 years □ 6-10 years □ above 10 years □

5. Which category of taxpayers are most usually audited (multiple answers are possible)?

Category A □ Category C □ Category B □ All of them □

6. Which business sectors are most usually selected for tax audit (multiple answers are possible)?

Manufacturing enterprises□ merchandising enterprises□ financial sectors □

Service enterprises (professional services, hotel and hospitality etc) □

Construction and real estate sectors □ others □, please specify ___________________

7. What types of audits are usually performed by the branch (multiple answers are possible)?

Desk (office) audit□ Field audit□ Comprehensive audit□ Issue audit□ Advisory audit□ Registration check □ Refund audit □ Fraud investigation □ Others □, please specify ________

8. What are the main reasons for the noncompliance behavior of the taxpayers to arise (multiple answers are possible)?

Taxpayers‟ deliberate action□ Taxpayers‟ lack of awareness□ Taxpayers‟ carelessness□ Weakness in tax administration itself□ others □, please specify ________________

9. In which area take training in the ERCA/branch office

How to collect data□ audit rules and regulation□ tax software□ other6 no takining training□

10. Which type of tests are conducted at the branch to check the accuracy of tax returns (multiple answers are possible)?

Review of financial statements and returns □

Observing, discussing and reviewing documents of taxpayers □

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

Examination of tax payers' record such as books and documents □

Examination of information from third party such as financial institutions □

11. Every business audited in one year□ two year□ three□ four and Above□

When the tax payer asking for any service □

12. Selection of audit file is based on …………… (Multiple answers are possible)

Taxpayer's cooperation to give essential information necessary for performing an audit□

Automated risk scoring system of compliance risk□

The availability of resource for tax audit□

Taxpayers' high tax potential Series evasion and fraud□

Their own knowledge of tax payer's behavior and environment manually□

Screening, case review and data mining techniques□

Randomly without any analysis□

13. Why auditee dosn't timely provide information and data to the tax auditors multiple answers are possible? Accountability fear□ Lack of confidence□ Lack of knowledge□

14. Which of the following performance (output and outcome) measures ued by your branch (Multiple answers are possible)?

Yield and productivity measures□ Time measures□ Volume and coverage measures□

Quality measure□ Measures of customer awareness and attitude to audit and non-compliance□

Tax gap measures□ Measures of changes in customer behaviour over time□

15. Which of the folowing used as abase to Evaluation of audit activities in the branch (Multiple answers are possible)

Character of management and auditors□

Based onThe amount money assessed□

Compliance review task (taxpayers' compliance behaviour) □

Compliance tracking analysis (comparing audited to non audited tax payer) □

Taxpayer education provided □

Survey of audited taxpayers□

Voluntary disclosures (taxpayer self-corrects) □

16. Which of the following pre contact analysis activities done in your branch (Multiple answers are possible)?

Reviews of unreported income□ Intelligence gathering□

Reviews of prior compliance history□ Returns preparer performance□

17. Which examination technique used in your audit department (Multiple answers are possible)

Records Examination□ Third party information□ Investigative approach□ Analytical review□

18. Which indirect methods mostly used to verify tax payers income

Source and Application of Funds Method□ Bank Deposits and Cash Expenditures Method□

Markup Method□ Unit and Volume Method□ Net worth method□ not used

19. What are the challenges of tax administration? What do you suggest for the improvement of Tax administration and tax audit program?---

Put a "√" mark in one of the columns provided for each possible indicator. Use the scales:

Strongly agree (5), Agree (4), Neutral (3), Disagree (2), strongly disagree (1)

	Statement	**Strongly Agree**	**Agree**	**Neutral**	**disagree**	**Strongly Disagree**
1	**legal framwork issue**					
1	The branch have appropriate powers of access to information held by the taxpayer and other parties					
2	Tax payers obligated to keeping books and records					
3	Giving tax officials access to indirect income verification of tax payer					
4	There is a sanction or penality for non compliance tax payers					
5	Formal statements of taxpayers' rights and obligations- an audit context					
6	The branch office audit system is sufficiently promoting (motivation sceme) voluntary compliance taxpayers and effective auditors					
2	**organisation structure issues**					
7	The branch have well organized structure and suitable office					
8	organizational structure of the branch enable better communication with senior management					
9	The branch established an independent unit for audit quality assurance					
3	**management suport issues**					

10	There is logistical support of Enough material and equipment (computer, cars..) for audit program					
11	There is high degree of planning, monitoring and evaluation					
12	overall tax audit strategy improving compliance tax payers					
13	Tax audit coordinators and team leader overseeing the selection, planning, execution and conclusion of every audit undertaken in their jurisdiction					
14	The branch have regulations to preclude individual auditors from repeatedly auditing the same business					
15	before auditing materiality and collectability can be considered					
16	selected audit finding information provided for the public					
17	Top managers' have good attitudes and behaviors to the audit department					
18	Auditors conduct their work without any interference					
19	the tax administrator aware of anti-fraud or tax avoidance strategies					
4	**Audit techiniques issues**					
20	Audit is performed based on audit manual and IT suported tools					
21	computer-based audit can be performed					
22	The management have detail, comprehensive, responsive plan and cascade timely to auditors					
23	audit work to be started and completed within a predetermined time frame					
24	the administration have a risk-based tax audit strategy by identified risk scoring criteria					

25	the taxpayer population been appropriately categorized according to relative revenue risk					
5	**Work force management issue**					
26	The branch have Job descriptions, functional descriptions and/or competency profiles using task-related competencies					
27	the organization provides incentives for improving their educational level					
28	The branch provide initial training, ongoing training and development courses					
29	capability gaps are identified and corrective action taken					
30	Job rotation and/or placement programs of auditors are aapplied					
31	Applications of promotion are based on merit and competence.					
32	Administrations use knowledge-sharing initiatives to help increase the capability of staff through the sharing of best practice, techniques, learnings and experiences.					
33	Tax audit department have the right number of high-quality staffs					
6	**Auditor related issues**					
34	Auditors have detail, comprehensive and responsive plan for the nature, timing and extent of the audit.					
35	tax auditors are free from any corruption					
36	Auditors give sufficient education to the taxpayers about the tax laws and regulations during auditing.					
37	There is a close relationship between the taxpayers and tax auditors.					

7	**Auditee related issues**					
38	The auditee have good attitude and cooperation with the tax system					
39	The auditee easily understand and be aware of the rules, forms and instructions regarding tax audit					
40	delivery of information by auditee’s is timely provided					

Tax audit team cordinators and department head in-depth interview instrument

1. What are the main challenges of tax audit adminstration in the branchs?

2. How audit cases are selected? What are the bases considered for selecting the audit case? How the highest risk taxpayers could be identified? How and by what criteria audit cases are assigned to senior and junior auditors?

3. Does ERCA consider the amount and collectability of tax returns assessed for conducting an audit work? What are the basic way of tax evasion and fraud in the branch and in what way try to combat them? Do you believe that ERCA has currently collecting the potential amount of tax revenue? If yes, how is it achieved? If not, could you tell me the reason behind, and on what audit cases should ERCA concentrate in its audit work?

4. How and in what condition desk audit, field audit, comprehensive audit, single audit, advisory audit, registration audit, record keeping audit, refund audit, and fraud investigation is performed in ERCA? Which audit type is mostly performed? Why could it be?

5. What are the ways that you monitor and evaluate tax auditors? What methods used to measure performance?