

**SAINT MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES  
MBA PROGRAM**



**ASSESSMENT OF TAX AUDIT PRACTICE IN THE CASE OF  
ERCA WEASTERN ADDIS ABABA BRANCH OFFICE.**

**A Research Report Submitted to the School of Graduate Studies of  
St. Mary's University in Partial Fulfillment of the Requirements for  
the Award of the Degree of Master of Business Administration  
(MBA)**

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## Declaration statement

I, the undersigned, declare that this study is my original work and that all source of materials used for the study have been dully acknowledged.

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## ***Abstract***

*Tax audit is a vital endeavor that assists governments in collecting appropriate tax revenue essential for budget, maintaining economic and financial order and stability. Tax audit helps 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. In the case of Ethiopia, the responsibility to tax collection for the Federal Government rests with the Ethiopian Revenue and Custom Authority (ERCA). The main mission of the authority is to establish modern tax and custom administration dedicated to meet the requirement of the business community, encouraging voluntarily compliance combating smuggling, tax evasion and there by contributing to development of the country. It's a fact that monitoring taxable activities and offsetting tax evasion would be challenging if a proper procedure is not in place and professional and technological capacity of the revenue administration is enhanced. The main objective of the study is to assess the tax audit practice at the Ethiopian Revenues and Customs Authority taking the Western Addis Ababa Branch Office of the Authority as a case. The research approaches used were both qualitative and quantitative case study approaches. The study has used questionnaire and interview as a data collection tools. The study has taken in to account all tax auditors at the branch. Since the sample size is equal to the population, the study has used a census survey. 150 questionnaires were distributed and the researcher has able to collect back 142 questionnaires (94.7% response rate). The result of the study showed that there are shortcomings in ERCA's current tax audit practice hindering it from generating tax revenue. The results of the study revealed that clarity of the tax audit program, power to access tax payers information, audit case selection, performance as per the generally accepted standards and procedures, availability of sufficient tax audit staff to perform onsite audit, availability of continuous assessment and provision of training, effectiveness of tax audit program in achieving pre-set objectives and management support and responsiveness to tax audit findings are among the major areas where gap is observed and need an attention. The researcher recommends the authority to give due attention and to work on the above identified area, so that it can achieve improvements in the performance of the tax audit practice.*

*Key words: - Tax, Audit, Practice*

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## **List of abbreviations**

ECC: Ethiopian Chamber of Commerce

ERCA: Ethiopian revenue and customs authority

EU: European Union

FDRE: Federal Democratic Republic of Ethiopia

GDP: Gross Domestic Product

IMF: International Monetary Fund

OECD: Organization for Economic Co-operation and Development

VAT: Values Added Tax

SPSS: Statistical Package for Social Science

TIN: Tax Identification Number



# CHAPTER ONE

## 1. INTRODUCTION

### 1.1. BACKGROUND THE SUDY

Taxation is crucial for the development of a nation. It plays undeniable role in financing the vital undertakings by the government to ensure safety and security, health care, education and other important public goods. Taxation may not sound exciting, but it is central to the development of nations. Currently, taxation has become part and parcel of all economic activities although it fails to meet its intended objectives in a number of countries (Getaneh, 2011). Governments of all countries from time immemorial have grappled with what the ideal level of taxation should be, to master the art of taxing without oppressing. The other end of the spectrum of revenue mobilization is ensuring that citizens comply with the law on what is due to the government and to pay accordingly (Sarfo, 2015).

Tax audit plays a major role in minimizing the malfunctions around taxation practice. Tax audit is the examination of an individual or organization's tax report by the relevant tax authorities in order to ascertain compliance with applicable tax laws and regulations of state. Tax audit is important because 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.

As per the advice of international organizations in the area of finance, developing countries should give great attention to the policy and administration of tax order to reap the proceeds from taxation. In fact, a good tax system, apart from generating revenue, minimizes distortion of resource allocation and simplifies its administration.

The responsibility to tax collection for the Federal Government in Ethiopia rests with the Ethiopian Revenue and Custom Authority (ERCA). ERCA was established by merging the former ministry of revenue, federal Inland Revenue authority and the Ethiopian customs authority in 2008 by proclamation No. 587/2008. The main mission of the authority is to establish modern tax and custom administration dedicated to meet the requirement of the business community, encouraging voluntarily compliance combating smuggling, tax evasion and there by contributing to development of the country( Atsbeha,2016).

The Authority is divided in to a number of branches throughout the country. The western Addis Ababa branch is one of the main branches serving the middle class taxpayers. In the recent past years, the government has undertaken major steps to enhance the revenue generated from taxation. The Government of Ethiopia is modernizing the tax and custom administration by overhauling the legislations and improving administration. The reform measures are intended to encourage trade, investment and hence development; broadening the tax base and increase Government revenues to support social programs and alleviate poverty; strengthen the enforcement capacity of the tax and customs authorities; and promoting equity in the tax system(Mesfin,2008).

However, some shortfalls are still observed in the performance of the authority in which the western branch is part of. Thus, this study intends to assess the taxation practice this branch of the authority.

## **1.2. Statement of the Problem**

Taxation is one of the important elements in managing national income in both developed and developing countries. Tax is defined as compulsory levy for which the tax payer receives nothing specific in return (Lymer&Oats,2009). As per Lymer and Oats, taxation in most developing countries is a difficult matter and has paying increasing attention in the last two decades. Of the problems which observed were poor administrations, weak enforcement mechanisms, and weakness to collect sufficient tax revenues, poor tax structures without consideration of horizontal and vertical equity and, not have of economic stability. In addition

to low capacity of tax administration to monitor compliance among taxpayers, continuous increase of informal sectors, poor self-assessment behavior of tax payers, and high amount of tax evasion are other obstacles observed in most developing countries (Lymer& Oats, 2009).

It's a fact that monitoring taxable activities and offsetting tax evasion would be challenging if a proper procedure is not in place and professional and technological capacity of the revenue administration is enhanced. Therefore, it's important to work on these areas and establishing a strong tax audit, which plays an important role to increase revenue administration capacity. Reform of the revenue administration that include efficient and effective tax audit may be needed to enable it to keep up with the increasing sophistication of business activity and tax evasion schemes(Sarfo,2015).

As pointed out by Getaneh (2011), the tax base of developing countries adversely affected by administration problems including poorly conceived tax policies and lack of certainty regarding future policy changes. In addition, tax administrations can also create problems for the tax payers when perform excessive inspections and audits, fail to deal with their corrupt employees, and failure to provide transparency in the operations of tax administration. Under inadequate tax administrationincluding 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.

In Ethiopia, it is not often the case to collect the potential tax revenue in the country due to lack of awareness of taxpayers as well as paucity of tax agencies'' cooperation with the business community. Tax systems are usually elaborated without proper discussion with the business community. In addition, the business owners do not have easy access to and clarification on information of the tax laws. The tax agencies do not also provide advising services. As a result, taxpayers misinterpret tax rules and regulations. Moreover, they lack awareness regarding the tax type to be imposed on their doings, purpose and operation of desk audit, goods and services exempted from tax, negative upshot of contraband trade, and reporting and filing requirements of the tax law (Getaneh,2011).

As per Mesfin (2008), there are various reasons why revenue administration reform may be needed in Ethiopia. First, while tax policy and tax laws create the potential for raising tax revenues, the actual amount of taxes flowing into the government treasury, to a large extent, depends on the efficiency and effectiveness of the revenue administration. Weaknesses in revenue administration lead to inadequate tax collections.

Like many other jurisdictions, Ethiopia's tax system is fraught with evasion. 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 cited inNetsanet(2014).

Accordingly, the revenue collected from taxation remains low as a result of the tax evasion and other administrative problems related tothe taxation practices. As outlined by Temtime (2011) the low percentage of tax revenue to GDP ratio in the country pressurizes the tax administration to increase revenue collection considerably. As a result of this, unfair practices are taking place which violets the rule of law that may automatically increase the burden of taxes on honest taxpayers.

Therefore, to alleviatethe shortcomings in the taxation systems of the country, a successful audit program should be put in to effect which is capable to inspect, identify and prevent loss of revenue from taxation. Tax audit should be supported by clear and straightforward laws and procedures that facilitate revenue collection, develop taxpayers' awareness, and minimize taxpayers' effort and compliance costs. The execution should be handled by competent staff that understand and exercise as per the procedures in place. To establish an effective and efficient tax audit system, it is a must to look back and address the administrative, skill and otherchallenges that are affecting it(Sarfo,2015).

Though the aforementioned there are challenges on the effectiveness of tax audit practicemost tax audit related studies fall short in giving due attention on the performance of tax audit program. Therefore, this study will attempt to fill this gap by focusing the taxation practice in the Ethiopia by taking ERCA's Western Addis Ababa Branch office as a case.

### **1.3. Objective of the Study**

The main objective of the study is to assess the tax audit practice at the Ethiopian Revenues and Customs Authority taking the Western Addis Ababa Branch Office of the Authority as a case.

### **1.4. Specific Objectives:**

- To examine the tax audit practice at ERCA Western Branch Office
- To analyze the performance of tax audit program at ERCA Western Branch Office
- Investigate the challenges confronting Tax Audit practice at ERCA Western Branch Office.
- To provide Practicable and constructive suggestions based on the findings of the study

### **1.4. Research Questions**

- What look like the tax audit practice at ERCA Western Branch Office?
- How is the performance of the tax audit program at ERCA Western Branch Office?
- What challenges the tax audit at ERCA Western Branch Office is confronting?

### **1.5 Significance of the Study**

The study has examined the tax audit practices. The findings of the study would enable the government and other stakeholders to get a better understanding on the current tax audit practices. The study will put forward relevant suggestions on improvements that could be made on the current practice of tax audit at the Authority. The procedures and transparency of the tax audit also will be assessed in the study. This will provide the authority with an opportunity to plainly see the efficiency and effectiveness level its tax auditing has and the role to boost tax revenue.

Furthermore, the findings of the study may also serve as a potential reference for future researches in tax audit.

### **1.6 Scope and Limitation of the study :-**

The main purpose of this study is assessing the tax audit practice in Ethiopia with special reference to Ethiopian Revenue and Customs Authority Western Addis Ababa Branch.



Therefore, the scope of this study is limited to analyze the performance the audit and its contribution to further advance the revenue collection at this particular branch.

Shortages of adequate secondary data and Confidentiality of some documents and information related to the topic and lack of fairness of some of the councils staff to give cooperation concerning the topic. It was difficult to meet respondents timely as well as lack of motivation from respondents in answering questionnaires.

## **1.8 Description of the Study Area**

The Ethiopian Revenues and Customs Authority (ERCA) is the body responsible for collecting revenue from customs duties and domestic taxes. In addition to raising revenue, the ERCA is responsible to protect the society from adverse effects of smuggling. It seizes and takes legal action on the people and vehicles involved in the act of smuggling while it facilitates the legitimate movement of goods and people across the border. The ERCA traces its origin to July 7, 2008 as a result of the merger of the Ministry of Revenues, the Ethiopian Customs Authority and the Federal Inland Revenues into one giant organization.

According to article 3 of the proclamation No .587/2008, the Authority is looked upon as "an autonomous federal agency having its own legal personality". The Authority came into existence on 14 July 2008, by the merger of the Ministry of Revenue, Ethiopian Customs Authority and The Federal Inland Revenue Authority who formerly were responsible to raise revenue for the Federal government and to prevent contraband. Reasons for the merge of the foregoing administrations into a single autonomous Authority are varied and complex (Retrieved from <http://www.ehpea.org/ResourceCenter/FDREOfficeMandates.aspx>).

The ERCA has the following objectives:

- Establish modern revenue assessment and collection system; and render fair, efficient and quality service;

- Assess, collect and account for all revenues in accordance with tax and customs laws set out in legislation;
- Equitably enforce the tax and customs laws by preventing and controlling contraband as well as tax fraud and evasion;
- Collect timely and effectively all the federal and Addis Ababa tax revenues generated by economy, and
- Provide the necessary support to the regional states with the objective of harmonizing federal and regional tax administration systems (Retrieved from <http://www.erca.gov.et/index.php/about-us#objective-of-authority>).

ERCA is organized as an authority led by a Director General (with the rank of minister) with direct accountability to the Prime Minister. ERCA is also further organized into branch offices to administer domestic and customs duties. The Western Addis Ababa Branch is one of the Addis Ababa branches of ERCA dedicated to serve middle level tax payers. Currently, the branch serves approximately 10,000 tax payers, 150 tax auditors and 15 team coordinators. The tax audit is mainly based on risk criteria.

## **1.8 Organization of the Study**

The study composed of five main chapters as follows. Chapter one focuses on the background to the study, problem statement, objectives, scope, limitation of the study and significance of the study. Chapter two devoted to the review of existing related and relevant literature. This chapter gives a broader view concerning issues of tax, auditing, tax audit, the role of tax audit in revenue collection and development and related matters. The third chapter is presents the details of the methodology used in the study. Chapter four contains the analysis, interpretation and discussion of data collected through the data collection instruments. The fifth chapter covers the summary, conclusion and recommendations of the study.

## CHAPTER TWO

### 2. REVIEW OF LITERATURE

#### 2.1. Introduction

This chapter reviews scholarly literature on taxation and practices involved in tax audit. It gives very deep insights and serves as a guide for the research. It would also assist other researchers who intend to go further than this work has gone, to find out about tax audit practice.

#### 2.2. What is Tax?

A tax is a compulsory levy imposed by the government on the income, profit or wealth of an individual, family, community, corporate or unincorporated bodies etc. for purposes of financing public expenditures. Taxation is the inherent power of the state, exercised through the legislature, to impose financial burdens upon subjects within its jurisdiction for the purpose of raising revenues to carry out the legitimate duties of government (Modugu&Anyaduba, 2014). As per Modugu&Anyaduba, taxation is a mechanism by which governments of a state generate income that would enable them to undertake huge public expenditure on behalf of their citizens for the provision of basic amenities and other social services. In other words, taxes are the most important and most reliable source of income for a government that would assist to meet up with its responsibilities.

In another words, tax is an obligatory charge on those who are taxed have to pay the sums irrespective of any corresponding return of services or goods by the government (Bhatia, 1976 cited in Selamawit, 2012). Taxes are generally compulsory contributions of wealth levied upon persons, natural or corporate, to defray the expenses incurred in the common interest of all, without reference to the special benefit incurred.”

On the other hand tax can be defined as a financial charge or other levy imposed on an individual or a legal entity by a state or a functional equivalent of a state (Abeba, 2013). Taxes

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

In generalizing the above definition we can define tax as an obligation levied on an individual, a firm or a corporation by a government for the purpose of generating income that will be invested in the development of infrastructures and social services for the general public.

### **2.3. Goals of Taxation**

Though the main agenda behind taxation is a collection of revenue for government expenditures as indicated in the section above, the purpose of taxation goes much beyond this. According to Cobham (2005), taxation can be distinguished having four major goals, each one of potentially great significance in the attempt to improve the welfare of citizens living in poverty.

**1. Revenue Generation:** Revenue is the most obvious and direct role of taxation. Three separate calls on the public purse can be identified, each of which must ultimately be met by tax revenues:

- i. The short-term need to address immediate problems of human development –the imperative that stems from a basic needs conception of poverty, including the provision of food, clothing and emergency medical treatment;
- ii. The (immediate) need for investment to address less pressing but equally important human development issues – those stemming from a more complex (development as freedom) approach to poverty, including education and preventative medicine and to simultaneously improve economic potential; and

- iii. The creation and/or long-term maintenance of the institutions and governance structures needed as guarantors of (the long-term stability of) quality of life, and prospects for its further improvement.
2. **Wealth Redistribution:** Redistribution is the second (though not necessarily secondary) role of a tax system. It is of course not valuable for its own sake but specifically, rather, to the extent that it can allow a given society to achieve human development gains by lifting poorest members out of (broadly defined) poverty. Where a society has wealth sufficient to meet the first demand on revenues above, inequality may form the obstacle to widespread human development.
  3. **Representation:** representation is the potential advantage generated by a well-functioning tax system. On the one hand, this relates directly to the claim 'no taxation without representation'. The connection between representation and taxation goes further however. Citizens may feel they have a lower stake in governance and policy outcomes when they are excluded from (the sensation of) government as the community purchase of a public good.
  4. **Re-pricing economic alternatives** is the fourth purpose of taxation policy. Specifically, taxation can be governments' main tool by which to influence the behavior of their individual and corporate citizens. Addressing externalities by e.g. increasing the costs of polluting behavior, or the incentives to save, can deliver substantial benefits.

## 2.4. Tax Audit

Tax audit is the independent examination of the returns submitted by taxpayers to the relevant tax authorities to ascertain the level of tax compliance by taxpayers (Ebimobwei & Peter, 2013). The primary purpose of tax audit is to ascertain the extent to which tax payers may have complied with the relevant statutory provisions of the tax Act concerning their audited financial statements and other tax-related returns.

A tax audit is an examination of whether a taxpayer has correctly assessed and reported their tax liability and fulfilled other obligations (Modugu & Anyaduba, 2014). The tax audit function

plays a critical role in the administration of tax laws. In addition to their primary role of detecting and deterring non-compliance, tax auditors are often required to interpret complex laws, carry out intensive examinations of taxpayers' books and records, while through their numerous interactions with taxpayers operating very much as the "public face" of a revenue body. These factors, as well as the sheer size of the audit function in most revenue bodies, provide a strong case for all revenue bodies paying close attention to the overall management of the tax audit function (OECD, 2006).

As per (Biber, 2010), a tax audit is an examination to determine whether a taxpayer has correctly reported and assessed their tax obligations. However, 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.

## **2.5. Actors Shaping International Tax Policy Trends**

Truly global tax reform movements, with a majority of countries adopting broadly similar policy measures, rarely occur—perhaps with the global spread of the VAT over the last 40 years as the most notable exception, with the fall in statutory corporate tax rates coming in as a close second (both phenomena dealt with in what follows). However, we frequently observe common patterns, at least on a regional basis, in tax reforms adopted by different countries over a given period. We believe there are, in fact, underlying factors that induce countries to adopt broadly similar approaches to tax reform over given periods of time with the following ones mentioned in no particular order and frequently overlapping:

**Globalization** of economic activity—i.e., the ever increasing ease with which saving and investment, factors of production, and goods and services can move and do move across borders—is the most frequently noted development. This increased mobility has far-reaching consequences for tax policy design, and often gives rise to complicated technical issues (e.g. International allocation of taxation rights; taxation of e-commerce), and sensitive issues of cross-border policy coordination (e.g., attempts by the EU to establish a uniform corporate tax

Base). In some sense, this development has not in itself presented altogether new tax policy issues, since taxation has always affected behavior and thereby tax bases, and governments have always responded by trying to adopt tax systems to minimize costs and preserve tax bases.

But globalization has accentuated the need for continuous adaptation and deepened international cooperation (although some would say that there is no need for increased cooperation, tax competition on the whole being beneficial), and increased the stakes by raising the potential costs of not following suit. Important examples that come to mind include the widening popularity of “flat” taxes, the ever growing use of tax-based incentives that countries apply to attract foreign investors, and the ensuing attempts to establish international “rules of the game” to prevent suboptimal outcomes. Another is the continued deepening of international financial intermediation as reflected, for example, in the emergence of significant off-shore financial centers—in large measure driven by attempts to shield investors from taxation in the jurisdictions where they reside (Norregaard and S. Khan, 2007).

*Employment creation* and the need to remove labor tax impediments to labor demand and supply, while perhaps not a global phenomenon, has featured high on the policy agenda in many countries, not least in the EU and OECD areas, as well as in most transition economies. This trend could be seen in the broader context of globalization, which has exposed labor markets in many (particularly developed) countries to increasing competition from low-wage economies and forced structural changes, perhaps, most prominently reflected in attempts to reduce aggregate tax wedges on labor in tandem with reformed benefit systems and other flexibility enhancing labor market reforms.

*A subtle change of views on the equity-efficiency tradeoff*, while frequently hard to accurately discern in practice or to distinguish clearly from the forces of globalization, may have importantly affected recent tax policy formulation. In one interpretation, not unequivocally supported by empirical evidence, more attention to efficiency aspects of taxation—supported by optimal tax literature, actual experience with extremely high marginal income tax rates in the 1970s/1980s as well as evidence that for all their progressivity, tax systems are largely proportional—may have been a participatory factor behind a number of fairly recent policy

trends, such as the larger role accorded to consumption taxes and the apparent sacrifice of the principle of global income taxation in favor of, for example, the dual income tax.

“*Herd behavior*,” or put somewhat more positively, adopting tax policy reform that for some reason becomes fashionable among economists and politicians at different points in time, is another factor of some potential importance, although its importance is very hard to assess in practice. This behavior is, in part, driven by political economy factors, with governments eager to demonstrate decisiveness, but using reform models that may have proven successful elsewhere. Examples include the move toward global income taxes in the 1980s–90s; and introduction of green taxes in the 1990s, and flat taxes in the 2000s. In some cases, it is hard to distinguish this behavior from the effects of globalization.

Somewhat related to the concept of herd behavior, but, perhaps, more satisfying to economists, is the idea of “yardstick competition,” which represents an alternative explanation for interdependence in tax setting behavior across jurisdictions to the standard direct competition for tax bases: under yardstick competition (or tax mimicking), governments are judged relative to their neighbors, and voters and potential investors take a country’s tax system and tax rate as a signal of its wider competence and attitudes toward business. In practice, however, there is an issue of how to distinguish this phenomenon from standard tax competition using rate reductions and tax incentives to attract tax bases (Norregaard and S. Khan, 2007).

## **2.6. The Rationale behind Tax Audit**

One of the most important problem challenges in effective tax administration is tax evasion, which is a purposeful refusal to pay tax. To fight these tax evasions, governments are forced to incorporate tax auditing in their tax system.

As per Reagan (2011), a Tax Audit would serve the following purposes:

1. Ensure that the books of accounts and other records are properly maintained;
2. Faithfully reflect the income of the tax payer and claims for deduction correctly made by him/her/it;
3. Help in checking fraudulent practices;



4. 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.

## 2.7. Types of Tax Audits

Tax audits vary depending the scope and purpose to which they are conducted. Therefore, different types of audit activities are undertaken in different circumstances for this reason. Accordingly, the Organization for Economic Co-operation and Development (OECD, 2006) classified the types of tax audit as follows;

- **Full audits**– The scope of a full audit is all-encompassing. It typically entails 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. In some countries full audits are carried out as part of random audit programs that are used to gather data on the extent, nature and specific features of tax compliance risks, for compliance research purposes and/or the development of computerized audit selection formulae. Given their broad scope, full audits are typically costly to undertake—a substantial program of full audits will require considerable resources and reduce the rate coverage of taxpayers that could otherwise be achieved by a more varied mix of audit types.
- **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 non-compliance. These audits consume relatively fewer resources than full audits and allow for an increased coverage of the taxpayer population.
- **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.

On the other hand, 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 (OECD, 2006).

- ***Based on 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.
- ***Based on 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 categorized 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 of audits to be conducted, and the circumstances in which specific types of audits are to be carried out, so that audit officials understand what is expected of them.

## **2.8. Tax Audit Program**

Since tax audit is a professional endeavor, it should be planned and executed appropriately. One of the methods to do this is developing all-encompassing tax audit program. A well-managed audit program plays a major role in managing compliance. An effective audit program will have significantly wider impacts than just raising revenue directly from audit activities (Biber, 2010).

According to Edmund Biber, A well-structured audit program plays an important part in improving the effectiveness of other parts of the administration. As well as detecting and addressing non-compliance, audit can provide valuable support in the following areas:

### **Information and Intelligence**

By having extensive access to the business community, the audit program can gain a lot of information and intelligence that may inform the revenue administration of practices that may be jeopardizing compliance and revenue collection. This information is critical to the development of appropriate treatment strategies in other parts of the administration, for example, taxpayer service, policy and legislation, collections and filing and payment enforcement, issuing taxpayer alerts, as well as influencing the selection of future audit and investigation cases.

### **Addressing deficiencies in the law**

Auditors will often detect taxpayer practices that exploit weaknesses in the law. Although not classified as evasion, these systemic avoidance practices may actually undermine the original intent of the relevant laws. Instances should be escalated to policy and legislation managers to address the issues through amending legislation. Furthermore, if auditors observe recurring patterns of avoidance, it may indicate inappropriate penalty provisions that may need to be amended to provide an adequate deterrent.

### **Law Clarification and Education**

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

From the above points we can conclude that well designed tax audit program is crucial to assure the enhance tax revenue collection, educate taxpayers and increase tax compliance. Therefore, given the role of audit in influencing compliance and the significant proportion of

an administration's resources devoted to the audit function, it is critical that audit activities are driven by well-designed plans that will deliver improved compliance (Biber, 2010).

### **2.8.1 The effective tax audit program**

Tax audit is one of the longest standing and accepted compliance strategies in tax administration. The tax audit program provides visibility to the compliance and enforcement arm of the tax administration .auditing and spot-checking of records, coupled with a system of adequate penalties for detected cases of fraud, is the universal method for tax control and the prevention of tax evasion. Tax evasion can be brought to light only by a means of an effective audit program . Tax audit also helps tax agencies to achieve revenue objectives that ensure the fiscal health of the country and individual states. It derives voluntary compliance and generates additional tax collections, both of which help tax agencies to reduce the tax gap between the taxes due and the amount collected (Barreca and Ramachandran 2004). Furthermore, a well structured tax audit program can provide valuable support in gathering information on the health of the tax system (including patterns of taxpayers' compliance behavior), educating taxpayers (improving future compliance), and identifying areas of the tax law that require clarification or addressing deficiencies in the law (OECD 2006a).

Accurate and timely self-assessment and compliance with tax by taxpayers is achieved only through highly visible and effective audit programs, including the consistent application of strong sanctions where noncompliance is encountered. Taxpayers must feel that there is a good chance that unreported liabilities and other forms of non-compliance have been detected during an audit . A good audit program employs strategies to optimize both the direct and the deterrent effects of audits. The first can be achieved by auditing a higher percentage of the large taxpayers (Biber 2010).

According to OECD (2006a), audit 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.

## 2.8.2 . The roles of the taxpayer audit program

The tax audit program of a revenue body performs a number of important roles that effectively carried out & can make a significant contribution to improved administration of the tax system.

These roles are described briefly hereunder:

- 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.
- 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 over time 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.
- Gather intelligence: Audits may bring to light information on evasion and avoidance schemes involving large numbers of taxpayers that can be used to increase major counter-abuse projects.
- Educate taxpayers: Audits can assist clarify the application of the law for individual taxpayers and to identify improvements required to record keeping and thus may contribute to improved compliance by taxpayers in the future.

- 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 taxpayers on what they must do to comply in the future. Given the broad range of roles to be performed a revenue body's audit program typically entails the largest allocation of a revenue body's total staff resources. From this perspective alone, the audit program represents a sizeable strategic investment that dictates the need for sound management policies and practices.

## **2.9. Tax Administration and Tax Auditing in Ethiopia**

Ethiopia is believed to have long years of history of states. The different rulers have used different mechanisms to get resources from their citizens in the form of taxes. Though the history of taxation in Ethiopia has a relationship with the government structures of the country, there exist hardly any reliable documentary evidences to justify the relation of emergence of government and taxation, when exactly taxation was introduced (Selamawit, 2012).

As per Yohannes & Sisay (2009), taxation has a history that goes back to the earliest times; as early as the Axumite period for the case of Ethiopia. That there are different kinds of taxes is perfectly obvious, but all of them can be placed in one of two large classes. Taxes are either direct or indirect. A direct tax is one which is demanded from the very persons who it is intended or desired from. On the other hand, indirect taxes are those which are demanded from one person in expectation and intention that he/she shall indemnify himself/herself at the expense of another. Obvious examples are the income and inheritance taxes on the one hand, and value added tax and customs duties on the other. Taxation is based on the two major principles of efficiency and equity.

The modern tax system has been started during Emperor Haile Selassie. To reach the current stage the Ethiopian tax has passed different stages even on wards from the Imperial period. According to the new constitution of Ethiopia adopted in November 1994, the federal democratic republic of Ethiopia would comprise a federal state and member states in which

both organs shall have their respective, legislative, executive and judicial powers. All financial requirements necessary to carry out duties and responsibilities that have been given to the federal government and the regional state are envisaged to be covered by the respective organs and the sharing of revenue between the federal government and regional states follow the arrangements of the powers of the government (Mesfin, 2008).

Since the down fall of the durgregime a number of laws have been adopted by the legislature of the country to deal with the different types of taxes in the country and their administration. The first law that can be taken as a source is the FDRE Constitution which has numerous provisions dealing with the administration of taxes. Then after, there are a number of proclamations and regulations dealing with taxes in the country, the most prominent of which include Income Tax Proclamation No. 286/2002; Council of Ministers Income Tax Regulation No. 78/2002; Value Added Tax Proclamation No. 285/2002; Council of Ministers Value Added Tax Regulation No. 79/2002; Turnover Tax Proclamation No. 308/2002; and Excise Tax Proclamation No. 307/2002 (Ethiopian Chamber of Commerce, 2005).

The account of taxes reveals that their forced nature is of reasonably recent development. The original idea of a tax was that payment was not obligatory upon the subject, but consisted rather as a voluntary contribution toward the expenses of government, as appears from the Medieval Latin term *donum*, and the English "benevolence." This conception of the relation between the subject and government was gradually transformed; payment becoming more and more obligatory, until finally coercive taxation resulted. At the present time payment of taxes is obligatory in all civilized nations; where the rate or imposition is at all dependent upon the taxpayer, the tax takes the form of a fee or payment for contractual services. Resources were allocated among the various sectors of the economy differently in the imperial and revolutionary periods. Under the emperor, the government dedicated about 36 percent of the annual budget to national defense and maintenance of internal order.

Toward the end of the imperial period, the budgets of the various ministries increased steadily while tax yields stagnated. With a majority of the population living at a

subsistence level, there was limited opportunity to increase taxes on personal or agricultural income. Consequently, the imperial government relied on indirect taxes (customs, excise, and sales) to generate revenues. For instance, in the early 1970s taxes on foreign trade accounted for close to two fifths of the tax revenues and about one-third of all government revenues, excluding foreign grants. At the same time, direct taxes accounted for less than one-third of tax revenues. Since 1992/93, the Government of Ethiopia has made a major economic policy shift from Central Planning to market oriented economic system. In line with this change, a series of tariff and tax reform measures have been taken. The reasons to these were: outdated tariff and tax laws; weak customs and tax administration; failure of the tariff and tax regime to attract investment, to facilitate trade and to generate adequate revenue to cover current and capital expenditure, and hence finance development and poverty reducing projects.

The series of tariff and tax reform programs have helped to increase both Federal Government and national revenue. As per the reports of the Ministry of Revenue, the Federal Revenue has increased to Birr 6.7 billion in 2002/2003 from Birr 2.54 billion in 1993/94 as the result of which federal revenue as percentage of the GDP increased from 8.97% in 1993/94 to 11.87% in 2002/03.

The increase in revenue mainly attributes to the modest increase in both direct and indirect taxes, mainly the foreign trade taxes. As well, National tax revenue as percentage of GDP has increased to 15.1% in 2002/03 from 10.9 in 1993/94. Despite, the series of reforms and increase in revenue, the overall budget deficit with and without grant has been increasing. For example, the overall budget deficit without grants as percent of GDP has increased from -5.2% in 1996/97 to -14.5% in 2002/03. This shows that performance of revenue collection in Ethiopia has been low compared to the rest of Sub-Saharan African countries which is over 23% of the GDP (Yohannes and Sisay, 2009).

Taxes are important sources of public revenue. The existence of collective consumption of goods and services necessitates putting some of our income into government hands. Such public goods like roads, power, municipal services, and other public infrastructures have



favorable results on many families, business enterprises, industries and the general public. Public goods are normally supplied by public agencies due to their natures of non-rivalry and non-excludability. The nature of consumption of public goods is such that consumption by one does not reduce consumption for others. Besides, consumption of public goods by an agent does not exclude others from doing same. Such nature of public goods therefore makes them impossible for private suppliers to avail them at market prices like other commodities. Government intervention in the supply of public goods is therefore inevitable and can only be done if the public pays taxes for the production and supply of such goods.

Despite the fact that people need to pay taxes based on rationales of vertical and horizontal equities, it is not always the case that tax systems are comprehensible and transparent for tax payers especially for less literate business operators. Tax systems are usually not elaborated after proper consultation with the business community. The business owners complain that the tax assessment method is based on subjective estimations a result of which they are frequently subjected to over-taxation. Since the business owners do not have simplified access to and clarification on information of the tax laws, they lack awareness on tax rules and regulations and this has an impact on the practicability of the regulations.

#### Exemptions

In addition to the exclusions provided by the income tax regulation, there are certain exemptions that have been provided by Article 13 of the Income Tax Proclamation. Accordingly, the following categories of income have been exempted from payment of income tax as prescribed by the proclamation:(a)income from employment received by casual employees who are not regularly employed provided that they do not work for more than one (1) month for the same employer in any twelve (12) months period; (b)pension contribution, provident fund and all forms of retirement benefits contributed by employers in an amount that does not exceed 15% (fifteen percent) of the monthly salary of the employee; (c)subject to reciprocity, income from employment, received for services rendered in the exercise of their duties by: (i) diplomatic and consular representatives, and (ii) other persons employed in any Embassy, Legation, Consulate or Mission of a foreign state performing state affairs, who are nationals of that state and bearers

of diplomatic passports or who are in accordance with international usage or custom normally and usually exempted from the payment of income tax. (d) Income specifically exempted from income tax by: (i) any law in Ethiopia, unless specifically amended or deleted by this Proclamation; (ii) international treaty; or (iii) an agreement made or approved by the Minister. (e) the Council of Ministers may by regulations exempt any income recognized as such by this Proclamation for economic, administrative or social reasons. (f) payments made to a person as compensation or a gratitude in relation to: (i) personal injuries suffered by that person;

- Supply of prescription drugs specified in directives issued by the relevant government agency, and the rendering of medical services;
- Rendering of educational services provided by educational institutions;
- Supply of goods and rendering of services in the form of humanitarian aid;
- Supply of electricity, kerosene and water; Provision of transport;
- Permits and license fees;
- Supply of goods or services by a workshop employing disabled individuals (if more than 60% of the employees are disabled);
- Supply of books.

#### **Assessment of the Tax**

- If after review by the Tax Authority, it appears that a person has understated his tax obligation, the Authority can issue an additional assessment;
- If, for any reason, the books of account are unacceptable to the Tax Authority, or if the tax payer fails to submit same when requested by the Authority, or if no books of account and supporting documents are maintained, the Tax Authority would assess the tax on the basis of information available;
- A presumptive turnover tax would be payable by Category “C” taxpayers who are not required to keep records. The base for the presumptive turnover tax would be the total turnover used as base for the income tax; The assessment made would be prepared in an assessment notification and be delivered to the taxpayer; If the Authority makes an

additional assessment and within 30 days of notice the person assessed does not pay the additional assessment or appeal the assessment the person is in default;

If the Tax Authority fails to assess the tax and notify the taxpayer of the amount still due within five years from the date of declaration and payment of the tax by the taxpayer the tax so paid would be final and conclusive. In case where the taxpayer has not declared his income or has submitted a fraudulent declaration, no time limit provided in any other law shall bar the assessment of the tax by the Tax Authority.

## **2.10 Categories of Taxpayers in Ethiopia**

Taxpayers are classified into the following three major categories:

- 1) Category “A”Taxpayers
- 2) Category “B”Taxpayers
- 3) Category “C”Taxpayers

### **Category “A”Taxpayers**

This category of taxpayers includes:

- a) Any company incorporated under the laws of Ethiopia or in a foreign country;
- b) Any other business having an annual turnover of Birr 500,000 or more. Category “A”taxpayers are required to submit to the Tax Authority, at the end of the year, a balance sheet and a profit and loss statement and the following details: a) Gross profit and the manner in which it is computed; b) general and administrative expense; c) depreciation expense; and d) provisions and reserves.

In addition, these taxpayers should register with the Tax Authority the type and quantity of vouchers they use before having such vouchers printed. Any printing press before printing vouchers of taxpayers shall ensure that the type and quantity of such vouchers is registered with the Tax Authority.

### **Category “B”Taxpayers**

Unless already classified in category “A”, any business having an annual turnover of over Birr 100, 000 would be classified under Category “B” taxpayers. This category of taxpayers should submit to the Tax Authority profit and loss statement at the end of the year.

### **Category “C”Taxpayers**

Unless classified in Categories “A” and “B”, those businesses whose annual turnover is estimated up to Birr 100, 000 are classified under this category of taxpayers.

### **Declaration of Income and Assessment of Taxes**

Taxpayers shall submit the tax declaration to the Tax Authority at the time of submitting the balance sheet, and the profit and loss account for that tax year within the time prescribed below:

- a) Category “A”taxpayers within four months from the end of the taxpayers’ tax year;
- b) Category “B”taxpayers within two months from the end of the taxpayers tax year. A standard assessment method should be used to determine the income tax liability of category C taxpayers. The taxpayer should pay the tax determined in accordance with standard assessment from the 7 day of July to the 6 day of August every year, unless, the taxpayer requested and is allowed to make installment payments.

If no records and books of accounts are maintained by the tax payer, or if, for any reason, the records and books of accounts are unacceptable to the Tax Authority, or if the taxpayer fails to declare his or its income within the time prescribed by the proclamation, the Tax Authority may assess the tax by estimation. A body shall not change its accounting year unless it obtains prior approval, in writing, from the Tax Authority and compiles with any condition that may be attached to the approval.

If a taxpayer has submitted a declaration of income within the time and manner as prescribed in the proclamation, the Tax Authority has five years to amend the assessment. The five years assessment period runs from the due date of the declaration. In case where the taxpayer has not declared his income or has submitted a fraudulent declaration, no time limit provided in any other law shall bar the assessment of the tax by the Tax Authority.

### **Assessment Notification**

Every assessment notification should contain the following elements:

- a) Gross income and deductions applicable;
- b) Taxable income;
- c) Rates applicable or percentage;
- d) Taxes paid and due;
- e) Any penalty or interest;
- f) Taxpayer's name, address, and TIN; and
- g) Brief explanation of the assessment and a statement of the taxpayer's rights.

### **Record Keeping Requirement**

All persons who are engaged in a business or trade or who own buildings held all or in part for rental, except for Category "C" taxpayers shall keep books and records. Those businesses that are required to keep books of accounts and records are also required to keep the following information:

- a) Record of the business assets and liabilities, including a register of fixed assets showing the date of acquisition, the cost of acquisition, and the current book value of each asset;
- b) Record of all daily income and expenses related to the business activity and the matter to which they relate;
- c) Record of all purchases and sales of goods and services to the business activity showing:
  - The particular goods and services sold;
  - The name of the buyers and sellers or providers in such a manner that they can be identified by the Tax Authorities;- pre-numbered invoices containing the vendor's tax identification number;
- d) Record of trading stock on hand at the end of the accounting period, including the type, quantity and cost of that stock as well as the method of valuation of that stock;
- e) Any other document relevant for the determination of the tax liability;
- f) If a taxpayer has certain books or records in a foreign language, the Tax Authority may require that they be translated into one of the official languages of Ethiopia at the taxpayer's expense.

## **Penalty for Failure to keep proper Records**

The taxpayer shall be liable for a penalty of 20% of the tax assessed if he failed to keep proper books of account, records, and other documents regarding a certain tax year. If the Tax Authority finds that a taxpayer has failed for two consecutive years, to keep proper books of account, records, and other documents the licensing authority would suspend the taxpayer's license on notification by the Tax Authority (Chamber of Commerce, 2005).

## **2.11 The Fundamental Goals of the Ethiopian Tax System**

The nonappearance of distinct tax policy government documents in Ethiopia and the consequent subsuming of tax policy in other general policy statements of the Government all contribute to the current uncertainty about the precise language and meaning of tax policies in Ethiopia. A Close reading of multiple policy documents most relevant to taxation, however, yields a number of tax policy goals for the Ethiopian tax system. It is difficult to exhaust all the tax policy goals of the Ethiopian tax system. It is by no means necessary to exhaust all the tax policies of Ethiopia, major and minor, general and specific. It is also important to remember that the goals of taxation in Ethiopia (as in elsewhere) are not fixed in time but dynamic. The goals as well as the emphases on goals change from one period to another. It is in general fair to say that the four fundamental goals of the Ethiopian tax system at the moment are:

- a. Raising revenues,
- b. Stimulating economic growth/development,
- C. Tax equity, and;
- d. Modernizing the Ethiopian tax system and tax administration.

### **A. Raising Revenues**

Raising revenues is ordinarily taken in the tax literature as a given, but there is a reason for listing "raising revenue" as a goal in and of itself in the Ethiopian context. Indeed, raising revenues at the moment constitutes the most important goal of the Ethiopian tax system. The need to meet the targets set by the GTP by raising revenues provided the major impetus for the government to redouble all its efforts to maximize its tax revenues. The Government needs to

raise more than half a trillion ETB (615, 591 billion ETB) in order to meet the targets of the GTP, out of which 431, 022 billion ETB (or more than 70%) is to be covered by tax revenues.

### **B. Economic Development**

Besides raising revenues, stimulating economic growth is perhaps one of the most important goals of the Ethiopian tax system over the last couple of decades. A recent publication of the ruling party places stimulating “economic growth” at the center of the country’s tax policy:

The goal of “economic growth” has occupied center stage in all of the general policy documents Of the Government of Ethiopia, including the Sustainable Development and Poverty Reduction Program (SDPRD) (2002/03-2004/05), the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) (2005/06-2009/2010), and the current Growth and Transformation Plan (GTP)(2009/10-2014-2015).

In all of these policy documents of Ethiopia, taxation has served as a key source of finance for the government to either reduce poverty and accelerate economic growth.

The Government of Ethiopia has taken a number of measures to achieve the goal of “Economic Development” on many fronts and it has not shied away from using taxes and duties as instruments for stimulating economic growth over the last couple of decades. Beginning with tax incentives in 1992, the current Ethiopian Government has issued a number of tax incentives laws in which “income tax holidays” featured as a major pillar of incentive schemes for investors engaged in certain priority areas (mainly in agriculture).

The Government of Ethiopia has also used the income tax laws themselves to extend various types of tax incentives for saving and investment. These include re-investment deduction provisions, provisions allowing carrying

### **C. Tax Equity**

The need to ensure the equitability of the Ethiopian tax system is often overshadowed by the rhetoric of raising revenues and encouraging investment and stimulating economic growth, when it is not trumped by administrative feasibility considerations, but tax equity remains one of the major policy objectives of the Government of Ethiopia.

In a recent analysis of the Ethiopian tax system by the Ruling party, tax equity features as one of the three goals of the Ethiopian tax system:

#### **D. Modernizing the Tax System and Tax Administration**

In view of the well-known weaknesses of the Ethiopian tax system, modernizing the tax system and tax administration as a major policy objective of the Ethiopian government should come as no surprise.

The Ethiopian Government has acknowledged repeatedly that its tax administration leaves a lot to be desired in terms of collecting revenues commensurate with the productivity of the economy and ensuring overall equitability of the tax system and tax administration (Taddese, 2014).

### **2.12. Empirical Evidence**

Although tax collection procedures proved somewhat ineffective, the government maintained close control of current and capital expenditures. The Ministry of Finance oversaw procurements and audited ministries to ensure that expenditures conformed to budget authorizations(ECC, 2005).

According to Asamnew(2010), in most developing countries, like Ethiopia, the revenue generated by the government is quite less than the expenditures spent. This low revenue yield of taxation can only be attributed to the fact that tax provisions are not properly enforced either on account of the inability of administration or on account of straight forward collusion between the tax administration and taxpayers.

In line with this, Mesfin(2008) identified that by and large, government's ability to carry out its ongoing expenditure programs in infrastructure and social sector depends on the level of domestic financial resources, largely expected to flow from its tax system. Nevertheless, Ethiopia's revenue performance over the past decade has been small, when compared to other developing countries. It remains low compared to the rationally accepted level of developing countries, which is 20-25 percent. To reverse this fact, Mesfin believes improving the



prevailing tax administration specially increasing tax audit efficiency and broadening the tax base should be given a priority.

Moreover, The study by Selamawit (2012) to assess the collection problems category “C” tax, the study indicated that lack of awareness creation programs for taxpayers, failure of most of the taxpayers to maintain books of account to control their operations, lack of adequately qualified personnel, lack of objective tax estimation procedures and the resultant tax under- and over-statement, lack of taxpayers awareness about tax procedures and calculations are some of the major problems on category “C” for tax assessment and collection.

Consistent with this, the findings of the study by Temtime(2014) focusing on Business Taxpayers’ Satisfaction with the Tax System in Addis Ababa found out that the ways tax authority provides tax information to taxpayers, tax collection and tax refund, administration capability to solving taxpayers’ problem and the area of tax audit procedures are the major areas for dissatisfaction. Moreover the finding revealed that the tax system is so complex and unfair, discretionary treatment by officers and existent of lack of monitoring in the tax authority.

As per the findings of the study conducted by Atsebha(2006) to assess the factors that influence business income tax payers compliance, in Ethiopian revenue and customs authority large tax payers branch office, the study findings showed that probability of being audited, providing quality service, tax knowledge, perception of fairness and equity, fines and penalties and organizational strength are basic considerations by taxpayers in their compliance-non-compliance decision.

In addition, a study conducted by Netsanet (2014) to assess the tax audit practice at Hawassa city Revenue Authority has revealed that the tax audit in practice lacks 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.

Furthermore, the study carried out by Getaneh (2011) to examines tax audit practice in Ethiopia (the case of federal government), and investigates key problems in tax audit operation revealed that the tax audit program in Ethiopia remains undeveloped with slight range of tax audit activities performed targeting aptly specific risks. The study also showed that 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 are the major problems in Ethiopia.

## **CHAPTER THREE**

### **3. RESEARCH METHODOLOGY**

#### **3.1. Introduction**

This chapter goes through the process to be followed in conducting the study to assure the collection of reliable data that would have potential value for best possible findings. It discusses the research design, population type, the sampling technique used, the sample size, and the data collection instruments, sources of data and data management and analysis.

#### **3.2. Research Design**

Since the study focuses on assessing the current practice of tax audit, its significance and problems related to tax audit, the research has applied descriptive research design. The main reason behind this choice is that descriptive research design is the best method to collect information that demonstrates the world as it exists and allow making interactions with subjects to obtain data and information. This method allows researchers to describe the data and its characteristic about what is being studied.

#### **3.3. Research Approach**

The research has made use of mixed method approach (qualitative and quantitative methods) of data collection and analysis. This has given a chance to touch a wide range of issues related to practice of tax audit and its contribution to revenue collection. Moreover, it is believed that this method has enabled the researcher to address the different objectives of the study, which cannot be achieved by a single method.

### **3.4. Population and Sample Design**

#### **3.4.1. Population of the Study**

The study population/participants have been all tax auditors of Ethiopian Revenues and Customs Authority Western Addis Ababa Branch. As per the information obtained from ERCA Western Branch office, the total number of tax auditors at the branch is 150. Therefore, the population of this study has been the indicated number of auditors at the Authority.

#### **3.4.2. Sampling and Sampling Technique**

Sampling is a technique used to select a certain proportion out of the total population when it is difficult to address the population under study, in case it is large. However, in the case of this study, the total population of this study (number of tax auditors) is found to be small. Thus, the study has taken in to consideration all tax auditors at the branch. In other words, the total population of the study has been used to collect the needed data. Therefore, in the case of this study, the sample size is equal to the population. Accordingly; the study has been based on a census survey.

### **3.5. Sources of Data and Data Collection Instruments**

The sources of data for this study were both primary and secondary data sources. The secondary data was collected from similar previous studies, reports, and publications by recognized organizations, web sites and other similar sources. The primary data has been collected through the use of questionnaire and interview. The questionnaire was comprised of both closed and open ended questions. Closed ended questions were enabled to capture some specific answers while the open ended questions have given respondents to address issues in an elaborated manner. In nutshell, a well-structured questionnaire has been developed and distributed to all the tax auditors at the branch. In addition, a semi-structured interview questions were designed in advance and interview sessions have been held with tax audit managers of the authority who are directly responsible for the supervision and controlling of tax auditing.

### **3.6. Methods of Data Analysis**

Regarding method of data analysis, quantitative and qualitative data types has been analyzed in different forms in accordance with the data types. The quantitative data was analyzed by using Statistical Package for Social Science (SPSS), to analyze the frequencies and percentages shares as well as relationships among different variables, whereas, the qualitative data has been analyzed using qualitative analyses. Percentages, tables, figures and graphshas beenbe used to present the data.

## **CHAPTER FOUR**

### **PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA**

#### **4.1. Introduction**

In this chapter the data collected through questionnaire and interview questions is presented, analyzed, and interpreted using different techniques. In this chapter a detailed description of the analysis and interpretation of data is outlined. All statistics were calculated using the Statistical Package for Social Sciences (SPSS). Furthermore, SPSS is used to study the frequency and the relationship among different variables.

#### **4.2. Response Rate**

A total of 150 question papers were distributed for tax auditors found at different level at the Ethiopian Revenue and Customs Authority (ERCA). Accordingly, out of the total question paper distributed, the researcher has able to collect back 142 questionnaires. This means the questionnaire has 94.7% response rate. Therefore, the analysis and interpretation to follow is made based on the returned questionnaires and interview sessions held with responsible officials of ERCA.

#### **4.3. Analysis of Questionnaire and interview**

The responses to the questionnaire are quantified and presented in number and percentage forms. In addition, graphs and tables are used for presentation followed by narrative to interpret & elaborate figures and relationships. Besides the questionnaire, Interview sessions were held with officials of ERCA.

##### **4.3.1. Part One- Demographic Characteristics of Respondents**

###### **4.3.1.1. Age and Gender Composition of Participants**

*Table 4.1: Age and gender composition of Participants*

Age Category of Participants * Gender of Participants Cross tabulation						
			Gender of Participants		Total	
			Male	Female		
Age Category of Participants	Under 20	Count	-	-	-	
		% within Age Category of Participants	-	-	-	
	21-30	Count	30	27	57	
		% within Age Category of Participants	52.6%	47.4%	100.0%	
	31-40	Count	32	16	48	
		% within Age Category of Participants	66.7%	33.3%	100.0%	
	41-50	Count	12	10	22	
		% within Age Category of Participants	54.5%	45.5%	100%	
	51-60	Count	3	-	3	
		% within Age Category of Participants	100%	-	100%	
	Total		Count	89	53	142
			% within Age Category of Participants	62.7%	37.3%	100.0%

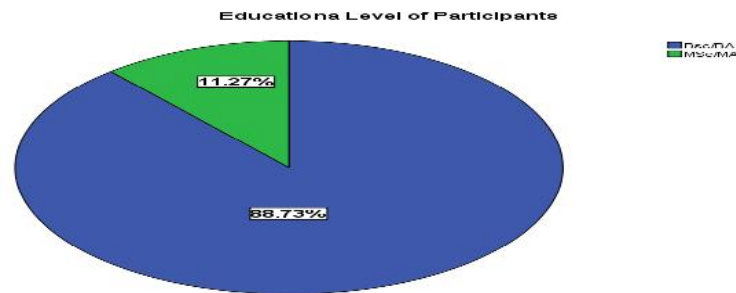
Source: Field survey, 2017

Table 1 presents the age and gender composition of participants. As depicted in the table above Out of the total of 142 respondents, 89(62.7%) were male while 53(37.3%) were female. This shows that the data is somehow representative in terms of gender composition. The category related to age was divided into four as under 20, 21-30, 31-40, 41-50 and 51-60. Accordingly, of the total respondents 40% are between the ages of (21-30), 33.8% between (31-40), 15.5% between (41-55) and 2.1% between (51-60). No respondent found to be under the age of 20.

When we come to gender- age composition, out of the 57 respondents aged between 21- 30; 30 (52.6%) were male and 27(48.4%) were female, out of the 48 respondents aged between 31- 40; 32(66.7%) were male and 16(33.3%) were female, while out the 22 respondents aged between 41-50; 12(54.5%) were male and 10(45.5%). And finally, of those 3 who are aged between 51- 60; 3(100%) were male and non female. Most of the respondents, 105 (74%) are found to be between the ages of 21-40. This implies that most of the participants are adults and this age category is considered to be matured enough and would enable the researcher to obtain potential information that would be relevant to the study.

### 4.3.1.2. Educational Level of Participants'

Figure 4.1:- Educational level of participants

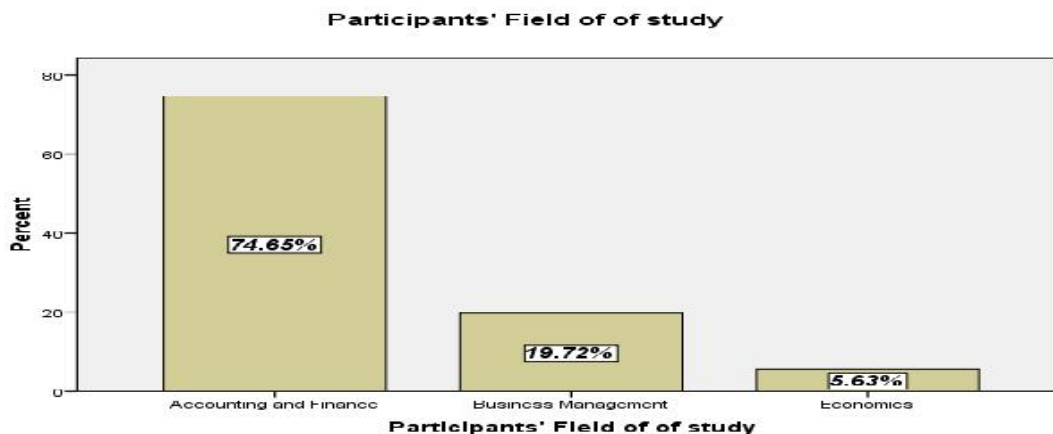


Source: Field survey, 2017

This question above is forwarded to understand the educational level of the participants. The question concerning educational level is divided into six as Certificate, Bachelor, Masters, PHD and other. Accordingly, as presented in the above figure, of the 142 respondents 126(88.73%) are Bachelor degree holders, while 16(11.27%) are masters degree level. This shows that most of the respondents are at good position concerning their educational level and we can conclude that most of the respondents somehow would have a strong rationality and good knowhow concerning the issue at hand.

### 4.3.1.3. Field of Study Participants Attend

Figure 4.2:- Participants' field of study





Source: Field survey, 2017

The figure above presents the field of study participants' attended. Participants were given five choices from which they make a choice. These are Accounting & Finance, Business Management, Economics, other Business related fields and Non- business related fields. Accordingly, among the fields of the study the good hand (74.65%) studied Accounting and finance, 19.72% Business Management and 5.63% Economics. So, the majority of the participants' have studied Accounting and Finance, which is very much directly related to their current occupation. This implies that the majority of the participants' have already obtained a good deal of knowledge in accounting and finance that would help them to understand tax auditing and carry out their assignment.

#### 4.3.1.4. Participants' Year of Experience at ERCA

Table 4.2:- Year of experience at ERCA

Work experience of participants' at ERCA					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 2 years	8	5.6%	5.6	5.6
	2-4 Years	38	26.8%	26.8	32.4
	5-10 years	84	59.2%	59.2	91.5
	above 10 Years	12	8.5%	8.5	100.0
	Total	142	100%	100.0	

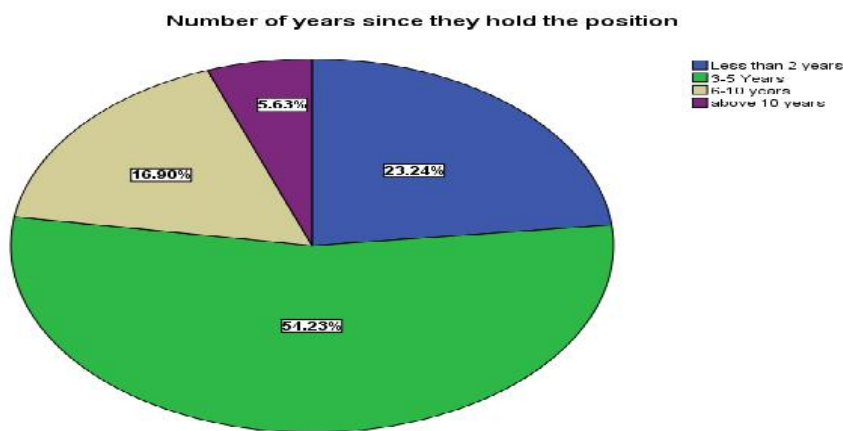
Source: Field survey, 2017

Table 2 presents the work experience of participants' at ERCA. As presented in the table out of the total respondents, 8(5.6%) have served at ERCA for less than two years, while 38(26.8%) served for 2-4 years, 84(59.2%) served for 5-10 years, 12(8.5%) served for above 10 years. In general, 98 participants' (67.7%) has served for more than five years. This implies that the majority of the participants' have adequate experience at ERCA that enables them to be familiar with the working conditions and procedures of the organization. Furthermore, the

level of service the participants' have at ERCA helps them to accumulate the level of practical knowledge they need to understand well and carry out their duties.

#### 4.3.1.5. How long since participants' hold their current position?

Figure4. 3:- Participants' year of experience at their current position



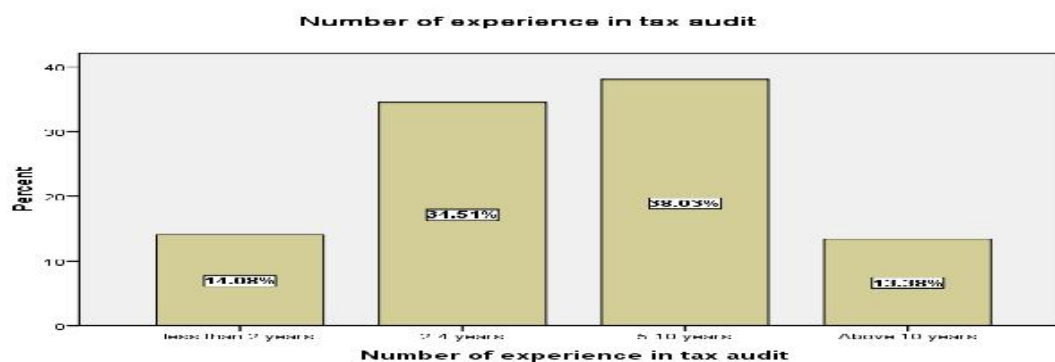
Source: Field survey, 2017

The number of years one stays on a certain position contributes for the enhancement of the knowledge and skill that is required to handle the requirements of that particular position in a professional manner. It is to assess the participants' year of experience on their existing position that the researcher incorporated this question in the questionnaire.

Accordingly, as indicated in the figure above out of the total respondents, 23.24% have stayed on their current position for less than 2 years, while 54.23% stayed for 3-5 years, 16.9% stayed for 6-10 years and 5.63% stayed for more than 10 years on their current position. In nutshell, 76.76% of the respondents have stayed on their current position for more than 3 years. This implies that the majority of the respondents probably have gained through time the know-how on tax auditing as a result their experience in their current position. This helps the researcher to get in depth and experience based information on the issues raised in the questionnaire.

### 4.3.1.6. Participants' Years of Experience in Tax Auditing

Figure 4.4:- Years of experience of Participants' in tax auditing



Source: Field survey, 2017

Figure 4 presents the number of years participants' worked on tax auditing. Accordingly, as indicated in the above figure, 14.08% of the respondents have worked for less than 2 years in tax auditing, while 34.51% have an experience of 2-4 years, 38.03% worked for 5-10 years and 13.38% have a tax audit experience of more than 10 years. In general, 85.92% of the respondents have more than two years of experience on tax auditing. This implies that the majorities of the respondents has an adequate knowledge on tax auditing and are at a level to provide useful information that would be a potential input for the study at hand.

## Part II: Questions Regarding the Tax Audit Practice:

### 4.3.1.7. Availability of Tax Audit Manual

Table 4.3:- Existence of tax audit manual

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	134	94.4%	94.4	94.4
No	8	5.6%	5.6	100.0
Total	142	100%	100.0	

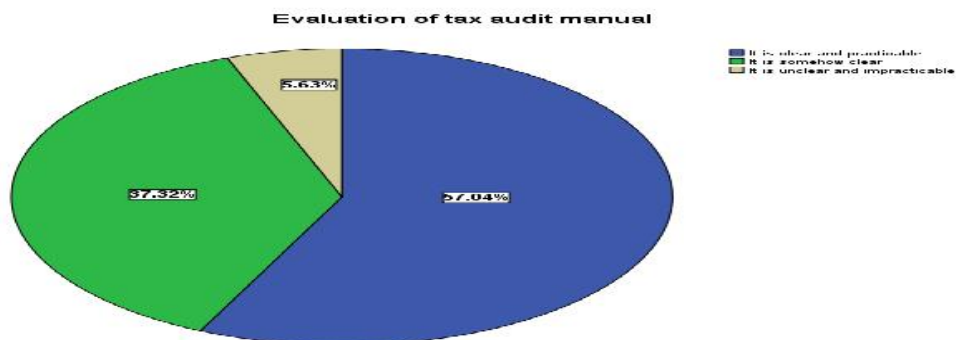
Source: Field survey, 2017

Table 3 presents participants' awareness towards the existence tax audit manual at ERCA. Of the total participants 134 (94.4%) expressed that they know the existence of a tax audit manual at ERCA, while 8(5.6%) said they are not aware the existence of a tax audit manual. This implies that though the majority said there exist a tax audit manual at ERCA, still there are few who are not clear on the existence of a tax audit manual at the organization.

Furthermore, the officials of ERCA have also attested the existence of the tax audit manual. One of the officials interviewed asserted by saying "Yes ERCA has already employed its domestic tax audit manual since May 2014. In my opinion the tax audit manual has laid out audit procedures and practice but I don't think all tax auditors are well aware of the manual and give appropriate attention in conducting tax audits.

#### 4.3.1.8. Clarity of the Tax Audit Manual

Figure 4.5:- Participants' attitude towards the clarity of the tax audit manual

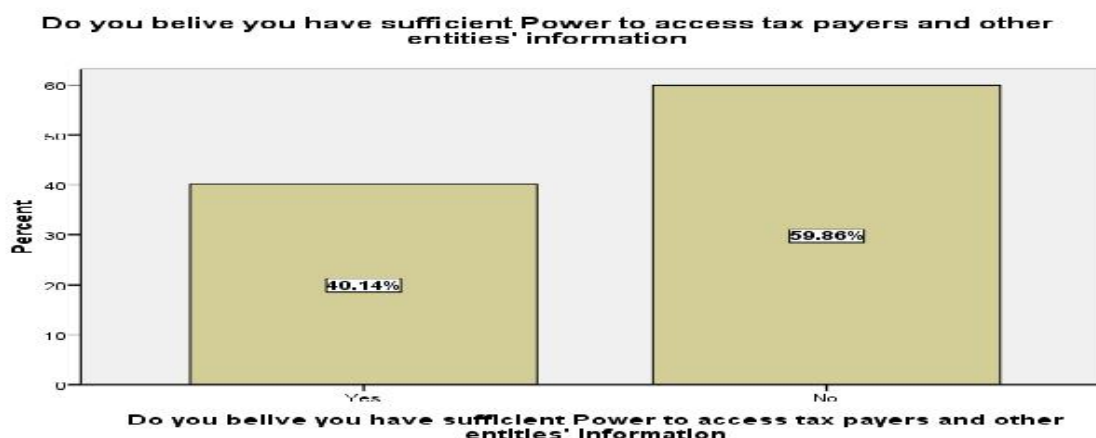


Source: Field survey, 2017

Figure 5 presents Participants' attitude towards the clarity of ERCA's tax audit manual. Accordingly, 57.04% of the respondents have the attitude that the existing tax audit is clear and practicable, while 37.32% believe that it is "somehow clear" and the remaining 5.63% have an opinion that it is unclear and impractical. In general, 42.95% believe there is some kind of un-clarity in ERCA's tax audit manual. This implies that there still exists an ambiguity in the clearness and practicability of the tax audit manual at ERCA.

#### 4.3.1.9. Auditors' power to access the needed information held by tax payers and other entities

Figure 6:- Participants' power to access information of tax payers and other entities



Source: Field survey, 2017

The above figure presents respondents' attitude towards whether they have sufficient power to access tax payers and other entities information or not. Accordingly, 59.86% of the respondents have an opinion that they don't have sufficient power to access tax payers and other entities, while 40.14% believe that they have sufficient power to access tax payers and other entities. From the figures we can see that the majority of the respondents believe they lack power to access the information that would enable them to undertake their duties. This implies that all tax auditors are not entitled to access tax payers and others information at the same level. This in turn may limit the performance and accurate tax auditing.

#### 4.3.1.10. How audit cases are selected

When answering for the question that how audit cases are selected, respondents said;

- First the risk time make assessment and select audit file then transfer to the concerned department
- Cases are selected based on risk selection criteria
- Audit cases are also selected when customers ask for the service
- Based on risk criteria and the request by the tax payers
- Based on the nature of the business activity as well as there is un usual posted materials

- By Skimming the economy and different sectors
- Based on risk management and tax payers' interest
- Based on the risk criteria, it can be by the level of gross profit or turnover

Generally, from the participants' responses we can understand that cases are mostly selected based on risk criteria and when tax payers ask to get service for the audit.

#### 4.3.1.11. Existence of deficiencies in the audit case selection

Table 4. 4:- Existence of tax audit manual

Do you think there are deficiencies in audit case selection					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	97	68.3%	68.3	68.3
	No	45	31.7%	31.7	100.0
	Total	142	100%	100.0	

Source: Field survey, 2017

The above table presents participants' attitude towards the existence of deficiencies in the audit case selection. Accordingly, out of the total number of participants' 97(68.3%) have an attitude that there exists a deficiency in the current audit case selection process, while the remaining 45(31.7%) believe no deficiency is observed in the audit case selection. This implies that the majority of the respondents believe there is some kind of deficiency in the audit case selection.

Those who said there is a deficiency when specifying the deficiencies said;

- There is no well-established system that can lead the audit case selection.
- The audit case selection team select files based on insufficient information, so the result is sometimes meaningless.
- Some companies with small amount of turnover usually slip through the process and selected for the audit.
- Non-compliance of tax payers and limited capability of tax auditors.

- Cases are selected repetitively while others are not audited at all. This is due to lack of good system in place.
- The case selection is mainly
- focus on annual sales which shouldn't be the only criteria
- The system currently being used is not well maintained in digging the files which need to be given priority to be audited than the rest.
- Files usually selected with no reasonable justification.

However, the officials of ERCA have a different stand. They believe the current practices of audit case selection is transparent and don't have as such many deficiencies. As per the interview session we had, the officials said that "The tax audit program is transparent and is assisted by automated process. The audit case selection is carried out by computers (soft ware) using different information items and parameters. Cases are selected for audit through risk criteria some of the criteria are:

- The turnover of the company
- The declared profit or loss
- The sector of the company
- The trend of the tax payer to pay tax
- Third party information

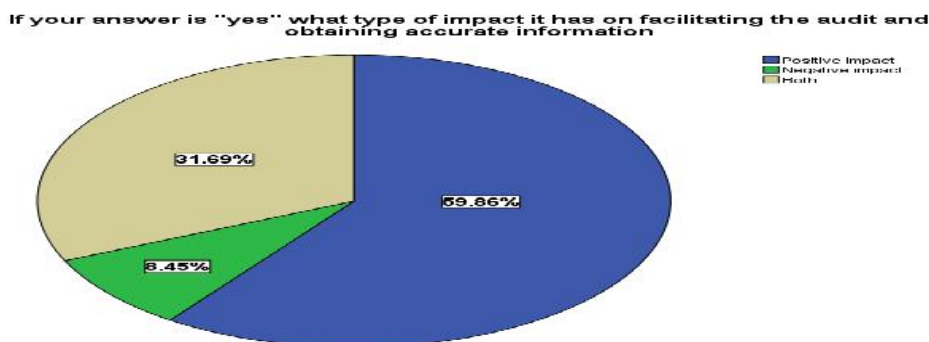
#### **4.3.1.12. Advance Notification of Tax Payers for Tax Audit**

For the question regarding if tax payers get prior notification once they are selected for the tax audit, all of the respondents said that tax payers do get prior notification when selected for the tax audit, which is proceeding to the actual tax audit visit. This implies that ERCA has a culture of notifying tax payers in advance which is a good practice that helps the tax payers to be ready and make the needed information.

The officials of ERCA further asserted this by saying “Tax payers selected for tax audit are notified by letters of tax audit are notified by letter of tax audit department team coordinators. The letter consists of different point in which tax payers provided document and areas concerned of tax office”.

#### 4.3.1.13. The impact of advance notification in facilitating the audit and obtaining accurate information

Figure 4.7:- Impact of advance notification in facilitating the audit



Source: Field survey, 2017

Figure 7 presents the participants attitude towards the impact of advance notification to tax payers on facilitating the tax audit and obtaining accurate. Accordingly, 59.86% of the respondents have an attitude that the advance notification has positive impact, 31.69% believe that it has a both positive and negative effect, while the remaining 8.45% said that the advance notification has a negative effect. From the above figure we can understand that the majority of the respondents have an attitude that the prior notification of tax payers about the tax audit has a positive impact in facilitating the tax audit and to obtain accurate information, while the second most said it has both.

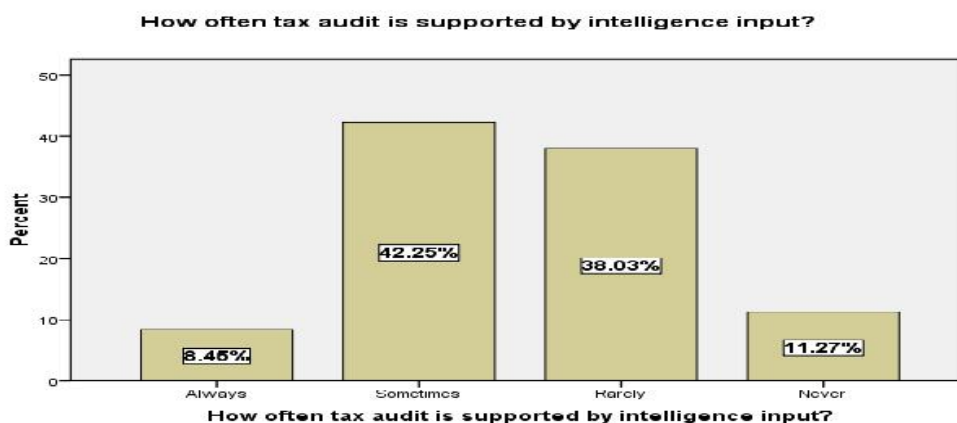
Those who said the advance notice has both positive and negative impact, when specifying the positive and negative stated as; the positive impact is in helping tax payers to be ready and prepare the documents that are necessary for audit and increases tax offices compliance and the negative impact is that tax payers may hid some essential information that, which may



compromise the quality of the tax audit conducted ERCA. This implies that prior notification of tax payers has a certain aspect of impacting the audit process in positive and negative ways.

#### 4.3.1.14. How often tax audit is supported by intelligence input?

Figure 4. 8:- Intelligence input support of tax audit



Source: Field survey, 2017

Intelligence input plays a vital role in obtaining accurate tax payers data in conducting a tax audit. It is to understand the level of intelligence input in carrying tax audit that the question of how often tax audit is supported by intelligence input. Accordingly, out of the total respondents, 42.25% said “sometimes”, 38.03% “Rarely” 11.27% “Never” and the remaining 8.45% said “Always”. Generally, 49.3% (almost half of the respondents) said that the tax audit is rarely or never supported by intelligence inputs. This implies that the practice of intelligence usage at ERCA is somehow limited.

However, as per the interview session we had with the officials, they said that “High level risk tax payers are identified through evidence which is obtained from intelligence department, based on sectors of business area that company doing, also through comparing the gross profit margin of one company with other similar company, ending inventory declared /held at the end of financial statement reporting period, by checking tax payer who pay less tax and declared loss”.

### 4.3.1.15. Practice of tax audit as per the Generally Accepted Standards Procedure

Table 4.5:- Practice of tax audit as per the Generally Accepted Standards Procedure

		Do you think audits are performed as per Generally Accepted Standards Procedure?			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	93	65.5%	65.5	65.5
	No	49	34.5%	34.5	100.0
Total		142	100.0	100.0	

Source: Field survey, 2017

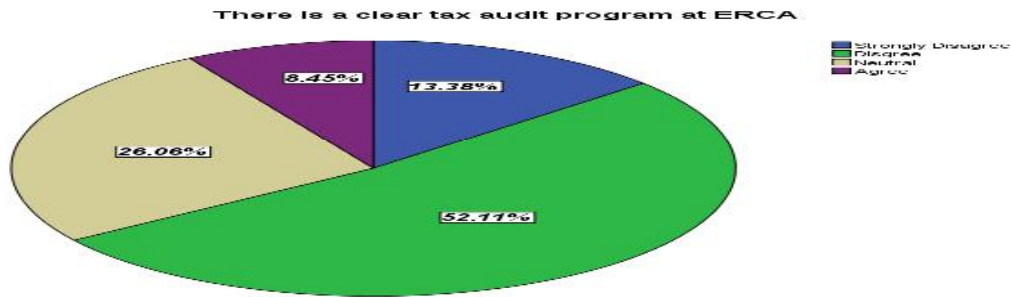
Carrying out tax audit programs following the generally accepted standards and procedure enables to establish consistent course of action in any endeavor of tax auditing. Besides its contribution in creating consistency, the generally accepted standards procedure does help in reducing personal biases and assist tax auditors to produce the level of output they are expected to come up with.

Table 5 presents the response of participants' on whether ERCA follows the generally accepted standards procedures or not. Accordingly, among the total number of the respondents, 65.5% have an opinion that ERCA's tax audit does follow the generally accepted standards procedure, while the remaining 34.5% said ERCA doesn't follow the procedure. Though the majority believes that ERCA follows the generally accepted standards and procedure, still the undeniable portion of the respondents said it doesn't. This implies that there is confusion on whether or not the current ERCA's procedure is as per the generally accepted standards procedure or not.

## Part III: Questions Regarding the Effectiveness of the Tax Audit Program

### 4.3.1.16. Existence of a Clear Tax Audit Program

Figure 4.9: Participants' attitude on the existence of a clear tax audit program



*Source: Field survey, 2017*

A clear tax audit program is a basic foundation for the consistent and successful completion of a tax auditing effort. It was to identify the participants' level of agreement on the availability of a clear tax audit program at ERCA that this question was forwarded to the participants' of the study. Accordingly, among the total participants 13.38% said they "Strongly Disagree" with the existence of a clear tax audit program, 52.11% said "Disagree", 26.06% "Neutral" and the remaining 8.45% said they "agree" with the opinion on the existence of a clear tax audit program at ERCA. In nutshell, almost 65.49% of the respondents do not agree on the clearness of the audit program at ERCA. This implies that there exists an ambiguity around the tax audit program of ERCA.

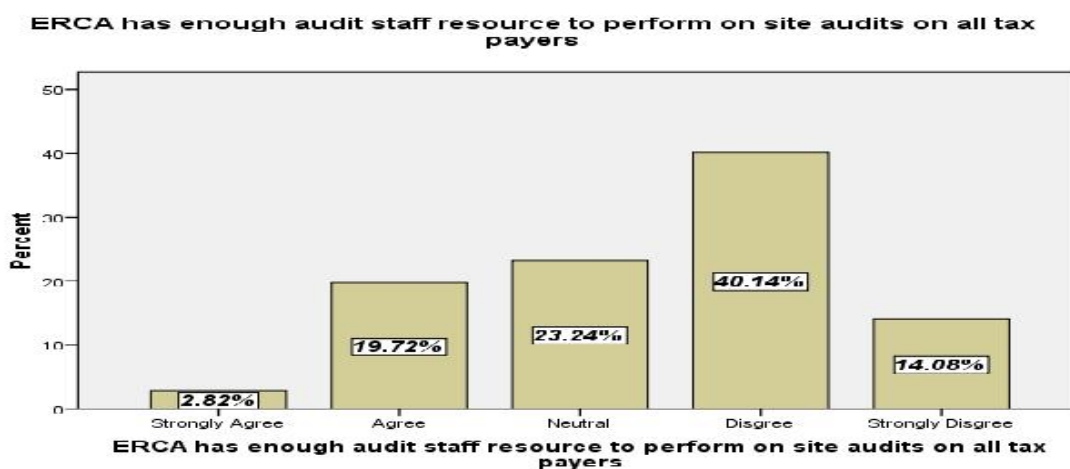
The researcher has forwarded the same question to the officials of ERCA during the interview session. Accordingly, on the existence of a clear tax audit program, the officials of ERCA have expressed the existence of the program by saying "Yes ERCA already established tax audit program which is specified on the tax audit manual, clearly specify the audit program for each account which write on income statement and balance sheet account that will focus when doing tax audit work".

The officials believe that the current tax audit provides assessors/ tax auditors with the tools to monitor audit work in progress. The tax audit program discourages deliberate un-reporting, it helps to educate tax payers and business owners, and help tax office employee /auditors with additional information to make fair and accurate tax assessment.

However, they have admitted the existence of awareness gap by saying “As we said when we see the ERCA it seems there exist a gap between ERCA’s current audit program and the staff awareness of the tax audit program.

#### 4.3.1.17. Availability of Sufficient Audit Staff to Perform Onsite Audit

Figure 4.10: Participants’ attitude on the existence of sufficient audits staff to perform onsite audit



Source: Field survey, 2017

Figure 10 presents participants’ level of agreement on the availability of enough audit staff resource to perform on site audits on all tax payers. Accordingly, out of the total respondents’, 2.82% expressed that they “strongly agree” on the availability of enough audit staff to perform onsite audit on all tax payers, while 19.72% said “Agree”, 23.24% “Neutral”, 40.14% “Disagree” and the remaining 14.08% said they “strongly disagree “with the existence of Sufficient audit staff. As we can see from the figure, the majority of the respondents (54.22%) believe that there is no sufficient audit staff that can handle an onsite audit on all tax payers at ERCA, 23.24% expressed their neutrality, while only 22.54% believe that ERCA has sufficient tax auditors to carry out the issue under discussion. This implies that there exists a question on availability of adequate tax auditors at ERCA that can undertake onsite tax audit.

The officials of ERCA admitted the insufficiency of the audit staff as per the findings of the interview session. The officials said that “The number of tax auditors is insufficient to handle

the branches' assignments. The number of tax payers at the branch is more than 9,000 but the number of tax auditors is so low. Thus, it is challenging to conduct the needed assessment and accomplishing the branches goals is difficult sometimes”.

#### 4.3.1.18. Tax auditors Involvement in Designing the Tax Audit Program

Table 4.6: Adequate involvement of tax auditors in designing the tax audit program at ERCA

The tax audit's staff adequately involve in designing the tax audit programs					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	4	2.8%	2.8	2.8
	Neutral	12	8.5%	8.5	11.3
	Disagree	101	71.1%	71.1	82.4
	Strongly disagree	25	17.6%	17.6	100.0
	Total	142	100.0	100.0	

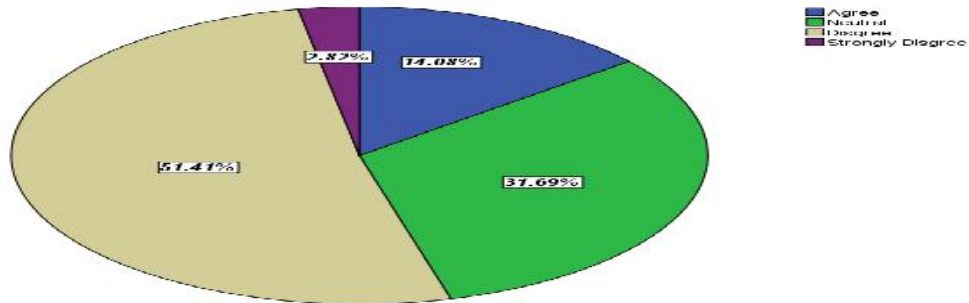
Source: Field survey, 2017

Table 6 presents participants' level of agreement on the adequate involvement of tax auditors in designing the tax audit program at ERCA. Accordingly, among the total number of respondents, 4(2.8%) said that they “Agree” on the adequate involvement of tax auditors in designing the audit program, while 12(8.5%) expressed their neutrality, 101(71.1%) said they “Disagree”, while the remaining 17.6% have a stand that they ‘strongly disagree’ with the adequate involvement of the tax auditors in the designing of the tax audit program at ERCA. This implies that the majority of the tax auditors at ERCA feel like they are not given adequate power to involve and contribute to the designing of the tax audit program.

#### 4.3.1.19. Advance Awareness Creation on the Tax Audit Program

Figure 4. 11: Participants' attitude towards existence of adequate advance awareness creation on the tax audit program

The tax audit staff is made adequately aware of the audit program in advance



Source: Field survey, 2017

Figure 11 presents participants’ level of agreement on an advance adequate awareness creation on the audit programs. Accordingly, out of the total respondents’, 2.82% expressed that they “strongly Disagree” on the advance awareness creation on the tax audit programs, while 14.08% said “Agree”, 31.69% “Neutral” and the remaining 51.41% expressed as they “Disagree” with the existence of adequate awareness creation on the tax audit programs at ERCA. As shown in the figure above, the majority of the respondents (54.23%) believe that there is no sufficient advance awareness creation on the tax audit program. This implies that the advance tax audit pro

gram awareness creation endeavor has limitations that need a deeper look.

However, as per the findings of the interview session, the officials of ERCA have a different stand. They believe that ERCA do create awareness to tax payers. They said that “Yes the ERCA give clear instruction and information to tax payers though the education and supporting department. This department has the obligation to give information to tax payers by facilitating training and education about different tax issue at least once a week”. However, the officials admitted that most tax payers don’t usually follow the training and education programs properly.

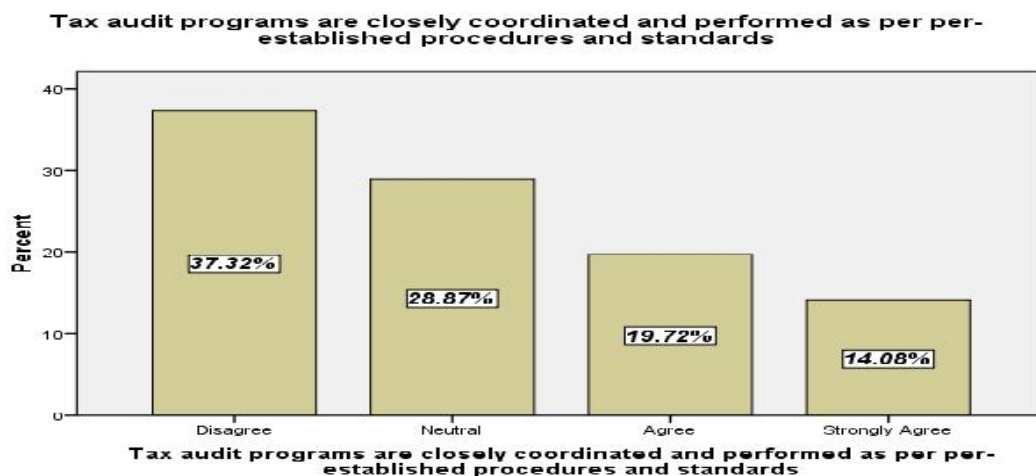
When stating what ERCA is doing in the awareness creation said that:

- Through audit work clarify the application of laws for tax payers and indentify improvements of tax payers that required improving record keeping and giving consultancy to improve compliance.

- Give information by preparing different mechanism which is easily accessible for tax payers like online information system and education and supporting mechanism.
- To increase compliance tax payers ERCA prepare reward mechanism for compliant tax payers.
- To increase compliance tax payers ERCA prepare penalty mechanism for non compliant tax payers.

**4.3.1.20. Coordination and performance of Tax Audit Programs as per pre-established procedures and standards.**

*Figure 4.12: Participants’ attitude towards the coordination and performance of tax audit programs as per established procedures and standards*



Source: Field survey, 2017

Pre-established procedures and standards are vital for a consistent and unbiased performance of tax audit programs in any situation. Figure 12 presents participants’ level of agreement on the close coordination and performance of tax audit programs as per pre-set procedures and standards at ERCA. Accordingly, out of the total respondents’, 14.08% expressed that they “strongly agree” on the close coordination and performance of tax audit programs at ERCA, while 19.72% said “Agree”, 28.87% “Neutral” and the remaining 37.32% expressed as they “Disagree” with the existence of a close coordination and performance of tax audit programs as per pre-established procedures and standards at ERCA. As shown in the bar chart above, the

majority of the respondents (37.32%) believe that the tax audit program at ERCA lacks the close coordination and performances are not in line with a pre-set procedures and standards, which are a basic foundation to deliver dependable tax audit outputs. This implies that there still exists a shortcoming in ERCA’s tax auditing programs in terms of closely linking them to a pre-established procedures and standards.

**4.3.1.21. Making aware of tax payers on the laws, rules and regulations related to taxation and what is expected of them.**

*Table 4.7: Creating awareness among tax payers on the laws, rules and regulations related to taxation and what is expected of them.*

**Tax payers adequately made aware of the laws, rules and regulations related to taxation and what is expected of them**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree	28	19.7%	19.7	19.7
Neutral	33	23.2%	23.2	43.0
Agree	61	43.0%	43.0	85.9
Strongly Agree	20	14.1%	14.1	100.0
Total	142	100.0%	100.0	

*Source: Field survey, 2017*

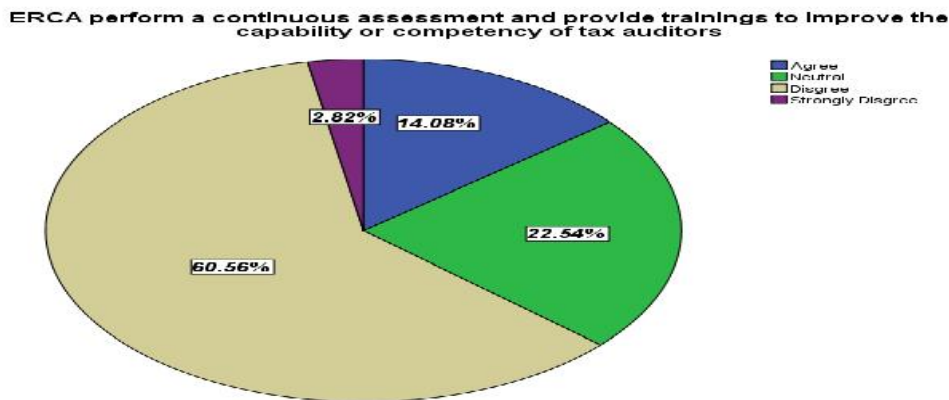
Creating awareness among tax payers on what is expected of them, the laws, rules and regulations related to taxation is one of the best ways to facilitate compliance and tax revenue collection. Table 7 above presents participants’ level of agreement on the performance of ERCA in creating awareness among tax payers on the laws, rules and regulations related to taxation and what is expected from tax payers. Accordingly, among the total number of the respondents, 28(19.7%) have expressed their disagreement, while 33(23.2%) said that they are not sure, 61(43%) said they do agree that ERCA creates awareness in the area, and the remaining 20(14.1%) said the strongly agree. In nutshell, almost 57% of the respondents believe that ERCA do try to adequately make aware of tax payers on matters related to tax



laws, rules and regulations and at the same time attempts to educate them on what is expected of them. This implies that the performance of ERCA in this aspect is one thing that needs an Appreciation.

**4.3.1.22. Continuous assessment and provision of trainings to improve the capability or competency of tax auditors**

*Figure 4.13: Participants level of agreement on existence of continuous asses/sment and provision of training to capability of tax auditors*



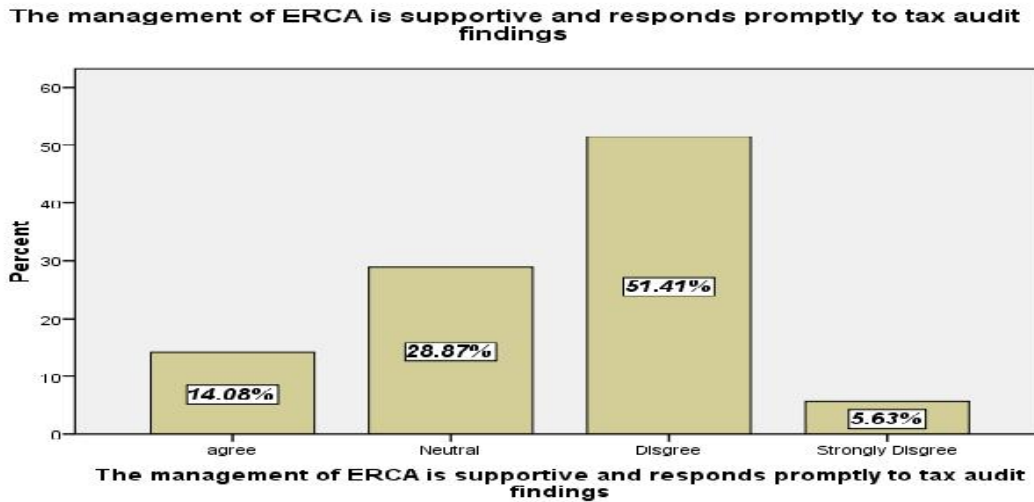
*Source: Field survey, 2017*

Figure 13 presents participants’ level of agreement on the existence of continuous assessment and provision of training to capability of tax auditors at ERCA. Accordingly, out of the total respondents’, 14.8% expressed that they “agree” on the existence of continuous assessment and provision of training to capability of tax auditors at ERCA, 22.54% said they are not sure about it, 60.56% said they “Disagree” and the remaining 2.82% said they “strongly disagree”with it. Generally almost 63% of the respondents have an attitude that ERCA is not performing at a level it should have in conducting continuous assessment and provision of trainings that could have helped the audit staff to develop their capability farther. This implies that ERCA is somehow limited in the capability development of its tax audit staff.

However, the officials of ERCA have a different stand, as per the findings of the interview session. They said that “Yes ERCA provides training to advance the capabilities of tax auditors. But somehow ERCA is not focused on sector base and practical continuous training to enhance the capability of tax auditors”.

#### 4.3.1.23. Supportiveness of management and its prompt response to tax audit findings.

Figure 4.14: Participants' level of agreement on the supportiveness of ERCA's management and level of promptness in addressing tax audit findings



Source: Field survey, 2017

Management support and promptness in responding to situations plays undeniable role in the accomplishment of plans and achievement of a pre set objectives in any sector. As its true in any area, ERCA's management should provide the necessary support and be responsive to findings of tax audits. It is to understand the level of management support at ERCA that this question was forwarded to the participants. Figure 14 presents participants' level of agreement on the supportiveness of ERCA's management and its capability to provide prompt response for tax audit findings. Accordingly, out of the total respondents', 14.08% expressed that they "agree" on the support and prompt response of ERCA's management, 28.87% said they are not sure about it, 51.41% said they "Disagree" and the remaining 5.63%% said they "strongly disagree"with it. Generally almost 57% of the respondents have an attitude that ERCA's management is not supportive as it should be and the responses for tax audit findings are not prompt enough. This implies that there exists a limitation in ERCA's management in providing the level of support the audit staff require and in provision of timely response for tax audit findings.

#### 4.3.1.24. A means to evaluate the tax audit endeavors

Table 4. 8: Participants' response on the availability of a means to evaluate ERCA's tax audit activities

Is there a mechanism to evaluate the audit activities?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	89	62.7%	62.7	62.7
	No	53	37.3%	37.3	100.0
Total		142	100.0%	100.0	

Source: Field survey, 2017

Table 8 presents participants' response for the question on whether there exists a means to evaluate the tax audit activities at ERCA or not. Accordingly, out of the total participants, 89 (62.7%) said "yes" there exists a means in which the tax audit activities are evaluated, while the remaining 53 (37.3%) said there is no mechanism in place to evaluate the tax audit activities at ERCA. Though the majority of the respondents said there exists a means of evaluation, still undeniable percentage of the respondents believe that there is no an established means that enable ERCA to evaluate its tax audit activities. This implies existence of some kind of confusion on the availability of an evaluation means. Even if the method of evaluation is in place, that means it is not clear for the undeniable portion of the tax audit staff.

Nevertheless, those who said there exist a means of evaluation, when asked to state how the tax audit activities are evaluated stated that the tax audit activities are evaluated by ;

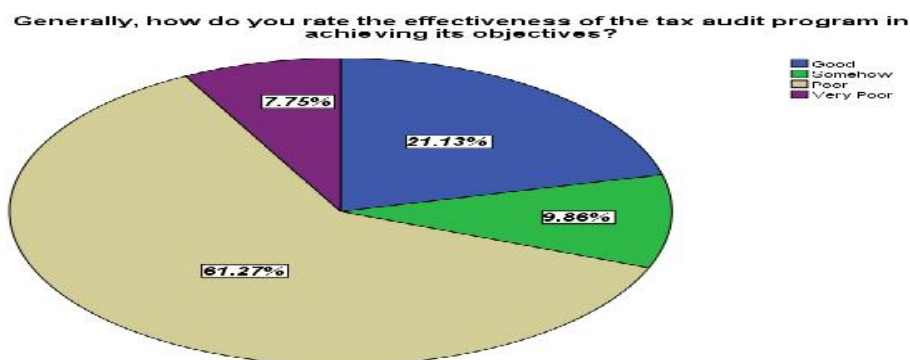
- The tax audit supervision team
- The internal Auditors
- The Risk team
- The audit quality assurance team
- The team coordinator and process owner

However, as per the findings of the interview session, the officials of ERCA have a stand that the tax audit activities are evaluated to make sure that they are performed appropriately. They said that the evaluation is done by:

- Gathering data about how much change in number compliant tax payer and non compliant tax payer from year to year.
- Making analysis of the tax audit outcomes
- Making periodic analysis on the risk assessment strategies.

#### 4.3.1.25. Effectiveness of ERCA’s tax audit program in achieving its objectives

Figure 4.15: Participants’ rating of ERCA’s tax audit program in achieving its objectives



Source: Field survey, 2017

The above figure presents the overall evaluation of participants on the effectiveness of ERCA’s tax audit program in achieving its objectives. Accordingly, out of the total number of participants, 21.13% said that ERCA’s tax audit is “Good” in achieving its objectives, while 9.86% said “somehow”, 61.27% said it is “Poor” and the remaining 7.75% said it is “Very Poor”. If we look deep we can see that almost 69% of the respondents have the belief that ERCA’s current tax audit practice is not at a level to effectively address its objectives and ERCA is expected to work hard to fill this gap.

However, the officials of ERCA have a different stand. They have an opinion that ERCA’s tax audit program is at a level to address the pre-set objectives. They also said that evaluation of the effectiveness of the tax audit program is carried out periodically. When stating the how ERCA measures the effectiveness of the tax audit programs said that:

- By making analysis on the amount of time utilized to complete a single audit.

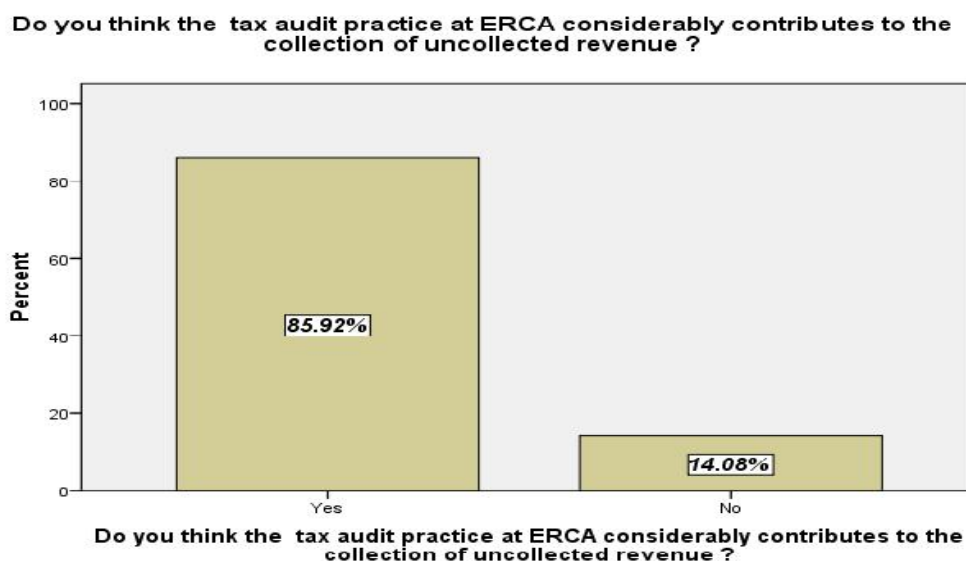
- Through assessed the amount of revenue collection after finalized audit work.
- By making analysis on how much audit work done by single auditors.
- By checking the number of taxpayer goes to appeal after audit notice delivered to tax payers
- By gather information from tax payers whether satisfied or not by audit work.

**Part IV: Questions Regarding Significance of Tax Audit in Enhancing Revenue Collection**

This part of the questionnaire is designed to solicit information from the respondents concerning the significance of tax audit in improving revenue collection.

**4.3.1.26. The Contribution of the current tax audit practice at ERCA in considerably improving the collection of uncollected revenue**

*Figure 4.16: Participants’ attitude on the contribution ERCA’s current tax audit practice in improving revenue collection.*



*Source: Field survey, 2017*

As shown in the figure above, out of the total number of respondents, 85.92% of the respondents expressed their belief that the current tax audit practice of ERCA do considerably contribute to the collection of uncollected revenue, while the remaining 14.08% of the respondents expressed their disagreement by saying “No”. As can be seen from these two

figures, the majority of the respondents have a stand that the tax audits at ERCA do considerably contribute to the collection of uncollected revenues. This implies that after all the shortcomings on ERCA’s tax audit practice discussed in the forgoing sections; the tax audit still is contributing to the enhancement of tax revenue collection from uncollected sources.

**4.3.1.27. ERCA’s current penalty rate for non-complying tax payers and its position to enhance revenue collection and influence future behavior.**

*Table 4. 9: Participants attitude on the effectiveness of the current penalty rate in enhancing revenue collection and influence future behavior*

**Do you think the current penalty rate for non-complying tax payers is at good position to enhance revenue collection and influence future behavior**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	33	23.2%	23.2	23.2
No	109	76.8%	76.8	100.0
Total	142	100.0%	100.0	

*Source: Field survey, 2017*

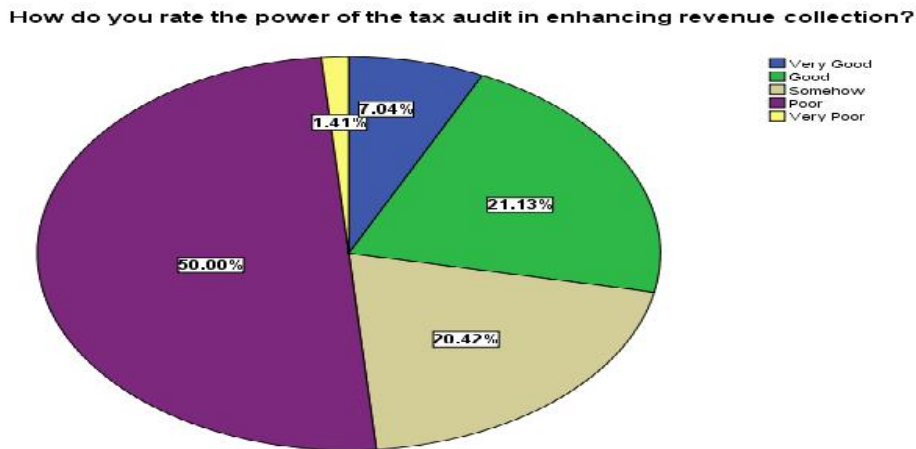
Table 9 presents the response of participants’ on whether ERCA’s current penalty rate for non-complying tax payers is at good position to enhance revenue collection and influence future behavior or not. Accordingly, among the total number of the respondents, 33(23.2%) have an opinion that ERCA’s current penalty rate for non-complying tax payers is at good position to enhance revenue collection and influence future behavior, while the remaining 109(76.8%) said the non-compliance penalty rate is not in a position to improve revenue collection and influence future behavior. This shows that the majority of the respondents don’t believe in the power of the current penalty rate. This implies that the current rate of penalty for non-compliance is not at a level to affect revenue collection and influence tax payers’ future behavior at the same time.

Those who said the current penalty rate for non-complying tax payers isn’t at position to enhance revenue collection and influence future, when stating their reason said;

- Because the penalty is not paid fully 80-90% usually end up in write-off. So, it is better to work on their attitude about the benefits the tax going to be collected.
- Because some taxpayers are not governed by the penalty
- The penalty for non-complying tax payers should be more than the current rate

#### 4.3.1.28. Power of the tax audit in enhancing revenue collection

Figure 4.17: Power of the tax audit in enhancing revenue collection



Source: Field survey, 2017

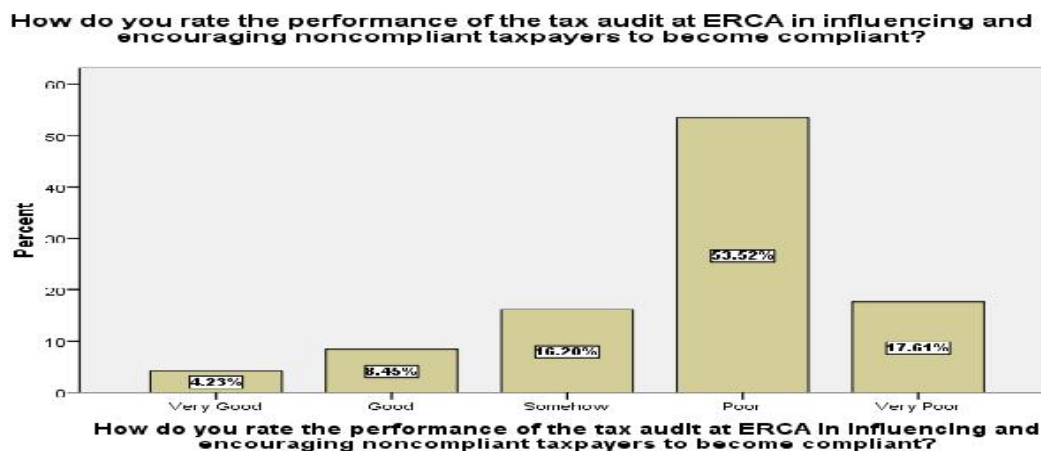
Figure 17 presents the power of tax audit in revenue collection. As shown in the figure out of the total respondents 7.04% said the power of tax audit in promoting revenue collection is “Very good”, while 21.13% said “Good”, 20.42% said “Somehow”, 50% said “Poor” and the remaining 1.41% said it is “Very Poor”. In nutshell, more than half of the respondents (51.41%) believe that the power of tax audit in enhancing revenue is not good. This implies that the authority of the tax audit is limited in terms of uphold tax revenue collection.

However, as per the findings of the interview session, the officials of ERCA believe that the power of the tax audit is in a good position to promote revenue collection. They have the stand that it is in a position to examine and make sure that organizations /individuals tax return and financial information is being reported correctly.

The officials have a stand that the current tax audit practice at ERCA is significantly contributing for the enhancement of revenue collection through enhance compliant tax payers, by collecting unpaid tax by focusing on risk assessment strategy.

#### 4.3.1.29. Performance of the tax audit at ERCA in influencing and encouraging noncompliant taxpayers to become compliant

Figure 4.18: Performance of tax audit in influencing and encouraging tax payers



Source: Field survey, 2017

One of the main agenda behind tax audit is altering the non-compliance nature of tax payers and promoting the collection of tax revenue. Figure 18 presents the attitude of respondents towards the performance of the tax audit at ERCA in influencing and encouraging non-compliant tax payers to become compliant ones. Accordingly, of the total respondents, 4.23% of the respondents have the attitude that ERCA’s tax audit performance is at a “Very good” level in terms of influencing non-compliant tax payers to become compliant, while 8.45% said it is “good”, 16.20% said it is “Somehow”, 53.52% said the performance is “poor”, and the remaining 17.61% said it is “Very Poor”.

Generally, 71.13% of the respondents have the opinion that the current tax audit performance of ERCA is “poor” in terms of influencing and encouraging non-compliant tax payers to become compliant tax payers. This implies that there is a gap in the performance of ERCA’s tax audit performance in terms of pressuring non-compliant tax payers to become compliant ones.



This is further asserted by ERCA's officials during the interview sessions. They affirmed that "The overall objective of tax audit is to improve the compliance of tax payers, whether they declare the correct amount of tax and paid at the right time. Its purpose is also to increase the collection of unpaid tax and to give different motives of customers". Furthermore, the officials have a stand that the It helps tax payers to correct their tax compliance level and recommend their financial report problem".

Furthermore, they have said that ERCA is not collecting the appropriate amount of tax revenue. Most business person are not inter on the right track , not registered and are not known by the authority ERCA focused only on register tax payers. And also the man power is small when compare to the number of tax payers and the capability of one employee is differ from another employee.

#### **4.3.1.30. Additional comments by respondents**

As per the opportunity they are provided to forward any additional comments regarding the issue of tax audit and related matters, respondents have stated the following points.

- The tax audit at ERCA should be supported by well-trained manpower, IT system, Smart working environment, disciplined mentality, well- structured tax audit program. This is because the taxation area is becoming more vulnerable to evasions and mal-practices.
- ERCA should work a lot on developing the capability of its tax auditors and advancing the awareness of tax payers so that it could collect more tax revenue and control non-compliant tax payers.
- ERCA should give more power to tax auditors so that they can access the needed information about tax payers. This in turn highly contributes to the improved quality of tax audit reports, which is a base for future endeavors of the Authority.

- ERCA should give the needed attention to the tax audit findings. Tax audit findings should be implemented on all parties consistently in good time to increase the revenue from
- tax. This also gives the audit staff the sense of meaning to what they are doing and motivates them to make more effort in the future.
- Tax audit programs at ERCA should be closely coordinated and performed as per per-established procedures and standards of the organization as well as internationally accepted practices. This helps to create a consistent practice that benefits the Authority and the audit staff in performing well in the future.
- ERCA's management should give the appropriate attention and adequately assist the tax audit staff and promptly respond to tax audit findings in order to increase the revenue from tax. This also encourages and increases the motivation of the tax audit staff and gives them a signal that the management of ERCA is by the side of the staff whenever needed.

## CHAPTER FIVE

### SUMMARY, FINDINGS AND RECOMMENDATIONS

#### 5.1. Introduction

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

#### 5.2 Summary

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

Though the main agenda behind taxation is a collection of revenue for government expenditures as indicated in the section above, the purpose of taxation goes much beyond this. Taxation can be distinguished having four major goals, each one of potentially great significance in the attempt to improve the welfare of citizens living in poverty.

Since tax audit is a professional endeavor, it should be planned and executed appropriately. One of the methods to do this is developing all-encompassing tax audit program. A well-managed audit program plays a major role in managing compliance. An effective audit program will have significantly wider impacts than just raising revenue directly from audit activities

The main objective of the study is to investigate the tax audit practice at the Ethiopian Revenues and Customs Authority taking the Western Addis Ababa Branch Office of the Authority as a case. Due to the specialized nature of the tax audit practice, data gathering was based on both qualitative and quantitative case study approaches in order to obtain responses that fully

capture the tax audit practice. The focus of the study was the Ethiopian Revenue and Customs Authority Western Addis Ababa Office.

However, still also found that the tax audit practice at the Authority has gaps which need to be filled. Limited power to access the needed information held by tax payers, audit staff resources to perform onsite audits, continuous assessment and provide trainings to improve the capability or competency of tax auditors, promptly to tax audit findings and effectiveness of the tax audit program in achieving its objectives are few of the areas where the authority needs to work hard.

### **5.3. Major Findings**

Based on the results of the data analysis, the major findings of the study are summarized as follows;

- Majority (59.86%) of the respondents admitted that they don't have sufficient power to access the information of tax payers and other entities that should have assisted them to carry out their duties in an effective and efficient manner.
- It was found that about 68.3% of the respondents have an attitude that there exists a deficiency in the current audit case selection process
- It was found out that about 65.5% of the respondents admitted that ERCA's tax audit has a shortcoming in following the generally accepted standards procedure of tax auditing.
- It was found out that about 65.49% of the respondents admitted that the tax audit program at ERCA has a problem of clarity.
- It was found out that 54.22% of the respondents believe that there is no sufficient audit staff at ERCA that can handle an onsite audit.
- It was found out that about 63% of the respondents admitted that ERCA is not performing at a level it should have in conducting continuous assessment and provision of trainings that could have helped the audit staff to develop their capability farther.

- It was found out that 57% of the respondents admitted that ERCA's management is not supportive as it should be and the responses for tax audit findings are not prompt enough.
- It was found out that 69% of the respondents have the belief that ERCA's current tax audit practice is not at a level to effectively address its objectives and ERCA is expected to work hard to fill this gap.
- It was found out that 85.92% of the respondents admitted that the current tax audit practice of ERCA do considerably contribute to the collection of uncollected revenue.

#### **5.4. Conclusion**

Tax audit plays a major role in minimizing the malfunctions around taxation practice. Tax audit is the examination of an individual or organizations tax report by the relevant tax authorities in order to ascertain compliance with applicable tax laws and regulations of state. As per the findings of the data analysis and information obtained from respondents, the tax audit at Ethiopian Revenue and Customs Authority Western branch have some shortcomings in terms of tax audit practice which in turn affect its contribution to the revenue collection.

Among the areas shortcomings are identified are; audit case selection process, implementation of the generally accepted standards procedure of tax auditing, clarity of the audit program, insufficiency of the audit staff to handle onsite cases, continuous assessment and provision of trainings for the audit staff, supportiveness of the management and the general in effectiveness of the tax audit program.

In nutshell, It is the researchers belief that there is still a room for ERCA to correct these shortcomings discussed above, if it gives each of them the needed attention and closely work with the tax audit staff to come up with concrete plan to bring improvements.

## **5.5. Recommendations**

Based on the findings obtained and indicated in the section above, the following major recommendations are made:

### **Power to access tax payers Information**

For a better performance and result of tax audit endeavors, ERCA should give adequate power to tax auditors. The inability of tax auditors to access the information of tax payers may gradually lead to the production of inaccurate and incomplete tax audit report. This impacts the quality of the tax audit report and makes the government to loss the tax revenue it should have collected from tax.

### **Audit Case Selection**

An audit case selection at ERCA should follow a pre-set concrete and consistent criterion. A deficiency in audit case selection may open the door for malfunction practices and facilitate a way for corrupt behaviors. Furthermore, the deficiency in audit case selection may lead to the inappropriate selection of cases which shouldn't be selected and overlooking of some audit cases that should be part of the tax audit. Thus, ERCA should look in to its audit case selection and make utmost effort to avoid the deficiencies in the audit case selection.

### **Performance as per the generally accepted standards and procedures**

Generally accepted standards procedures of tax auditing give a pre- established standards and procedures that facilitate a smooth running and contributes to better tax audit findings. The generally accepted standards and procedures are a basic foundation to deliver dependable tax audit outputs. Furthermore, the standards and procedures help to eliminate the human biases in the tax audit practices. Thus, ERCA shall make utmost effort to align its tax audit practices with the generally accepted tax audit standards and procedures.

### **Clarity of the tax audit program**

A clear tax audit program is a basic foundation for the consistent and successful completion of a tax auditing effort. Clarity of tax audit programs plays a major role in improving the coordination, collaboration and smooth handling of tax audits in any tax authority. It

contributes to consistent performance which in turn improves the quality of the tax audit reports. Thus, ERCA should make utmost effort to increase the clarity of its tax audit programs so that it can ease the tasks of the tax auditors and enhance the tax audit reports.

#### **Availability of Sufficient Tax audit Staff to Perform Onsite Audit**

The contribution of adequate manpower in improving the performance of tasks in any field is undeniable. Like in other areas of endeavor, the availability of sufficient tax audit staff to perform an onsite audit plays a major role in the quality of the tax audit effort and eases the burden on the existing tax auditors. Thus, ERCA should make utmost effort to equip itself with the adequate number of tax auditors so that it can perform onsite audits in a fruitful manner.

#### **Continuous assessment and provision of training**

Continuous assessment and development of the tax audit staff is a pillar to assist the audit staff to develop their capability farther. It also helps the Authority to understand the performance level of its tax auditors and identify the knowledge and skill gaps among its auditors and plan for future interventions. Therefore, ERCA should make utmost effort to conduct continuous assessments and provide the needed interventions to develop the performance of its staff.

#### **Management support and responsiveness to tax audit findings**

A timely support and response contributes a great deal in tax auditing more than in other areas. Management support and promptness in responding to situations plays undeniable role in the accomplishment of plans and achievement of a pre set objectives in tax audit. Thus, ERCA's management should provide the necessary support and be responsive to findings of tax audits.

#### **Effectiveness of tax audit program in achieving pre-set objectives**

Like other endeavors, a tax audit programs should be designed in such a way that they can address a pre-set tax audit objectives. To this end, any tax audit programs should be designed in such a way they are channeled and effectively contribute to the achievement of specific tax audit objectives. Hence, ERCA's tax audit programs should be designed in a way they effectively contribute to the attainment of prior established tax audit objectives.

### **Contribution of the current tax audit practice in considerably enhancing the collection of uncollected revenue**

One of the main agenda behind tax audit is altering the non-compliance nature of tax payers and promoting the collection of tax revenue. Therefore, it is vital to design the tax audit practices in such a way that they can considerably contribute to the enhancement of collection of uncollected tax revenues. Hence, ERCA should further keep up with current good performance of the tax audit practice and make utmost effort to come up with new ways of working that ensure the better performance of the tax audit practices so that they continuously contribute to the collection of uncollected tax revenues.



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**Research Questionnaire**

**SAINT MARRY UNIVERSITY  
MBA IN ACCOUNTING AND FINANCE  
SELF-ADMINISTERED QUESTIONNAIRE**

The purpose of this questionnaire is to assess the Tax Audit Practice and its Significance in Enhancing Revenue Collection at Ethiopia Revenue and Customs Authority taking the Western Addis Ababa Branch as a case. The data obtained through this questionnaire will be kept confidential and used only for research purpose. The information you provide will have a potential value for the success of this research. Thus, I kindly request a candid answer so that the study reflects the fact.

In case you want to contact the researcher (FevenShimels) for any question or comment, please feel free to reach her through her mobile number +251913738139.

Please;

- Where you are provided with options, Please put a “ ” on an alternative that best suits you.
- Do not write your name on the questionnaire.
- Know that this questionnaire is to be filled by tax auditors

Thank you in advance for your cooperation!!!

**Part I: - Background Information**

1. Gender    Male        Female
2. Age    Under 20        21-30        31-40        41-50        51 -60          
above60
3. Highest Educational Level        Certificate        Diploma        BSc/BA
- MSc/MAPHD other, Please Specify -----
4. Field of study (You can tick more than one):
- Accounting & Finance     Business Management    Economics
- Other Business field     Business field, please specify-----
5. How long you have been working for ERCA?
- Less than 2 years     2-4 years     5-10 years     above 10 years

6. How long it has been since you hold your current position?

Less than 2 years  3- 5 years  6-10 years  above 10 years

7. How many years of work experience do you have in tax auditing?

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

**Part II: Questions Regarding the Tax Audit Practice:**

8. Does ERCA have any tax audit manual Yes  No

9. If you have a tax audit manual, how do you evaluate its clarity?

It is clear and practicable  It is somehow unclear  It is unclear and impracticable

10. Do you believe you have sufficient power to access the needed information held by tax payers and other entities?

Yes  No

11. How do audit cases are selected? \_\_\_\_\_

12. Do you think there are deficiencies in the audit case selections? Yes  No

13. If your answer is "yes", could you please specify some deficiencies?-----  
-----

14. Do tax payers selected for audit get notified in advance? Yes  No

15. If your answer is "No", what do you think the reason is?-----  
-----

16. If your answer is "Yes", what type of impact it has on facilitating the audit and obtaining accurate information

Positive Impact  Negative Impact  Both

17. If your answer is 'Both', could you specify some of the positive and negative impacts?

\_\_\_\_\_

18. How often tax audit is supported by intelligence input?

Always    Sometimes  Rarely     Never   

19. Do you think audits are performed as per Generally Accepted Standards Procedure at ERCA?

No

**Part III: Questions Regarding the Effective Tax Audit Program:**

Please provide your best answer for questions indicated in the following table.

No	Statements	Strongly	Agree	Neutral	Disagree	Strongly Disagree
24	There is a clear tax audit program at ERCA Western Branch					
25	The ERCA has enough audit staff resources to perform onsite audits on all taxpayers or comprehensive crosschecking of invoices or transactions					
26	The tax audit's staff adequately involve in designing the tax audit programs					
27	The tax audit staff is made adequately aware of the program in advance					
28	Tax audit programs are closely coordinated and performed as per per-established procedures and standards					
29	Tax payers adequately made aware of the laws, rules and regulations related to taxation and what is expected of them					
30	ERCA perform a continuous assessment and provide trainings to improve the capability or competency of tax auditors					
31	The management of ERCA is supportive and responds promptly to tax audit findings					

32. Is there a mean to evaluate the audit activities?    Yes     No

33. If the answer is "yes" who and how is it going to be evaluated?  
 .....

34. Generally, how do you rate the effectiveness of the tax audit program in achieving its objectives?

Very good     good     Somehow     poor     very poor

35. If your answer for question no. 32 is "poor" or "very poor" please specify your reasons.....

**Part IV: Questions Regarding Significance of Tax Audit in Enhancing Revenue Collection**

36. Do you think the current tax audit practice at ERCA considerably contributes to the collection of uncollected revenue? Yes  No

37. If no, what are the shortcomings in your opinion  
.....

Do you think the current penalty rate for non-complying tax payers is at good position to enhance revenue collection and influence future behavior Yes  No

39. If your answer is "No", Please state your  
reason.....

40. How do you rate the power of the tax audit in enhancing revenue collection?

Very good  d  pod  somehow  poor  ery poor

41. How do you rate the performance of the tax audit at ERCA in influencing and encouraging noncompliant taxpayers to become compliant?

Very good  good  somehow  very poor  poor

42. If your answer for question no. is "poor" or "very poor" please specify your reasons.....

43. If you have any additional opinion, please  
specify.....

THANK YOU SO MUCH FOR YOUR COOPERATION!

### **Interview Questions**

1. What are the primary motives behind conducting a tax audit at ERCA?
2. Does ERCA have already designed a tax audit manual? If yes, do you think it is clear enough for the staff?
3. Does ERCA have well established tax audit program? Do you think employees are adequately aware of the program?
4. How cases are selected for audit? What inference or criteria considered for such decision?
5. How do taxpayers selected to tax audit notified?
6. How do high risk taxpayers be identified?
7. Do ERCA give clear instructions, assistance and information to tax payers in advance?
8. What ERCA is doing regarding awareness creation and tax payers' compliance improvement?
9. How do you evaluate the effectiveness of the tax audit program at ERCA?
10. What parameters do you use to measure the effectiveness of the tax audit programs?
11. Do you think the number of the tax auditors is sufficient to handle the branches' assignments
12. How do you think the tax audit staff is adequately capable to carry out the branches' responsibilities?
13. Does ERCA provide timely trainings to advance the capabilities of its tax audit staff?
14. Do you think ERCA is collecting the appropriate amount of tax revenue? If yes, by what means it's achieved? If not, why it is unable to do that?
15. Does ERCA take in to account the amount and collectability of tax returns in deciding a tax audit work?
16. Do you think the current tax audit practice at ERCA is significantly contributing for the enhancement of revenue collection? If yes, how? If no, what do you think the reason is?



