



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

**ASSESSMENT OF TAX AUDIT PRACTICE
THE CASE OF ADDIS ABABA CITY GOVEREMENT
REVENUE AUTHORITY ADDIS ABABA NO.1 MEDIUM TAX
PAYERS BRANCH OFFICE**

**BY
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ID No. MBAAF/0075/2009B**

**JANUARY/ 2019
ADDIS ABABA, ETHIOPIA**

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY,
SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILMENT OF
THE REQUIREMENTS FOR THE DEGREE OF MASTERS OF
BUSINESS ADMINISTRATION
IN ACCOUNTING AND FINANCE**

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DECLARATION

I have carried out independently a thesis on “Assessments of Tax Audit Practice in Addis Ababa City Government Revenue Authority Addis Ababa No. 1 Medium Tax Payers Branch Office” in partial fulfillment of the requirements of the MSC Degree in Accounting and Finance with the support of the advisor.

This thesis is my own works that has not been presented for any degree or diploma program in this and any other institution, and that all source of materials used for the thesis have been duly acknowledged.

Name Dessalegn Yeshiwas

Signature _____

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ACKNOWLEDGEMENTS

This thesis could not have been done without the help and support of many people. First and foremost, I would like to extend a special word of thanks to my advisor, Dr, ZenegnawAbiye, for this tireless and diligent monitoring and advice. I am grateful for this intellectual guidance and supervision which has been a source of inspiration to me throughout the whole thesis work. And also, I would like to thank all respondents and informants for providing me the required information in the process of data collection.

Finally I never forget all those who were sharing their brotherly advice and materials at critical time.

ACCRONYMS

ERCA	Ethiopian Revenue and Customs Authority
GDP	Gross Domestic Product
IMF	International Monetary Fund
IT	Information Technology
OECD	Organization for Economic Co-operation and Development
SPSS	Statistical Packages Social Scientists
VAT	Value Added Tax

ABSTRACT

This study assesses tax audit practice in Addis Ababa City Government Revenue Authority in the case of Addis Ababa No. 1 Medium Tax Payers Branch Office. The study aims to assess tax audit practice to investigate the tax audit looks like the experience and capability of auditors participated in tax audit practices as required by international standards. To carry out the study, the researcher used primary data sources through questionnaire from target population of tax auditors and audited taxpayers. This study adopted a descriptive research approach. The surveyor takes all target population of tax auditors and purposive sampling techniques of audited taxpayers in order to achieve the research objectives and to answer research questions. The data has analyzed through descriptive statistics using Statistical Packages for Social Scientists (SPSS) version 24, Data collected using questionnaire was table's, frequency distribution and percentage, graphs used to present the data. The result shows that there were not well organized office, lack of training, less awareness and no tax audit fairness. The study recommends that Addis Ababa City Government Revenue Authority Addis Ababa No. 1 Medium Tax Payers Branch Office to give more attention for the tax auditor continuous training should be provided, working environment should be improved and, maintaining tax fairness and equity, building capacity of the tax authority, conducting extensive awareness creation programs, and also to maintain public trust and confidence in the performance of tax administration.

Keywords: Tax, Taxation, Tax auditors, audited taxpayers and Tax audit

CHAPTER ONE

INTRODUCTION

1.1 Background of study

For most developing countries, taxation goes hand in hand with economic growth and taxes are lifeblood for government to deliver essential service and to make long-term investment in public goods (OECD, 2010). This shows growth of any nation depends on the amount of revenue generated and useful by the government on the public infrastructure for the benefits of member of that society. No economy can grow without adequate resources for infrastructural development and provision of power and public utilities and services. Taxes and tax system are fundamental component of any attempts to build nations, and this particularly the case in developing or transitional nations (Mckercher and Evans, 2009). From this point of view as Biber (2010) noted, the role of an audit program in a modern tax administration must extend beyond merely verifying a taxpayers reported obligations and detection of discrepancies between a taxpayer's declaration and supporting documentation.

Tax audit may increase tax revenue in two ways: directly through assessment of additional taxes, and indirectly by improving taxpayer compliance with the tax laws and regulations (Barreca and Ramachandran, 2004). Therefore, for taxation to be effective in achieving both short and long-term goals in any economy, the level of tax compliance must improve for efficient tax administration. Hence, one measure that can be used to improve the level of tax compliance is tax audit.

Ola (2001) stated that tax audit helps to improve voluntary compliance by detecting and bringing into account those who do not pay correct amount of tax. In addition to this, Slemrod, (2000) noted that tax audit is one of the most effective policies to prevent tax evasion.

In addition to this, Kicher (2008) stated that 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 regulation of state. In order to achieve the goal, the tax audit practice performed by the authority should be assessed; these also help the authority to evaluate and take

corrective actions. Therefore, the aim of this study is the assessments of tax audit practice in Addis Ababa City government revenue authority Addis Ababa No. 1 Medium Tax Payers Branch Office.

1.2. Statement of the problem

Taxation is the system by which a government takes money from people and organizations and spends on things such as education, health and defense (Collin English Dictionary, 2010). To achieve all necessary goals of a government, tax revenue should be collected properly and on time as schedule. Total tax revenue performance of Ethiopia has been 12.5, 12.7, 12.5, 11.8 and 12.4 percent of GDP during 2013/14 to 2017/18 respectively (IMF, 2018).

Ethiopia still mobilizes not more than 14 percent of GDP in tax revenues. This may be because of evasion or fraud by the taxpayers, which includes; under reporting profits, employee wages, and failure to register or file tax declarations, lack of willingness to operate in accordance with tax laws, non-issuance of VAT invoices for buyers, and negotiate unseen from tax authorities. For instance, according to Alemu and Deresse (2009), more than forty businesses (shops) at Addis Ababa, mainly in Merkato and Piazza areas, have been shut down after the intelligence officers of Ethiopian Revenue and Customs Authority (ERCA) allegedly caught them red-handed violating the Ethiopian VAT law. The offence was non-issuance of VAT invoices for the buyer in a belief that inclusion of VAT in the price would push the buyers to go away. During the time, over one hundred individuals who were operating in those businesses were arrested.

The Addis Ababa City Administration Revenue Authority announced the year 2018 nine month report shows that the expected collection were birr 23.8 billion, however, actual collection is birr 21.6 billion, hence there is deficit birr 2.2 billion in 9 months performance, and also, during the period the authority planned to collect Br. 639 million from 142 files by tax audit, but the actual collected birr 483 million from tax audit in 139 files. Arada, Addis Ababa No. 1 &2, and Bole branch has a significant contribution for these collection even if (Reporter, 2018), it indicates that there were a performance problem in tax auditing. This shows that tax evasion is the commission or omission of an act knowingly, with the intent to deceive, so that the tax reported by the taxpayer is less than the tax payable under the law (Dymond, 2004).

A tax payer significantly reduces the amount of collectible taxes, that is, the amount of necessary payment to governments. It also disables them from performing tasks that are constitutionally and legally assigned to them. In addition to that, under inadequate tax administration system, the potential amount of tax revenue in developing and transitional countries has not been collected in an efficient and equitable manner (Edmiston and Bird 2004).

To resolve the above problem effective tax auditing is so important to support in collecting appropriate revenues, to ensure satisfactory returns submitting by the taxpayers, to minimize the degree of tax avoidance and tax evasion, to ensure strict compliance with tax laws by taxpayers and to ensure the amount due is collected and remitted to government. Effective tax audit could assist in that direction to monitor tax payers in complying with tax procedures so as to reduce tax evasion and then to increase the revenue generation through tax by creating good tax administration and collection system.

There are many studies related to the tax audit practice in Ethiopia. Gebeyehu (2008) studied basic concepts of tax audit, and analyze the significance and role of tax audit in increasing tax revenue and in strengthening tax administration capacity. Asamenew (2011) also studied the most tax auditor's lack of sufficient knowledge of tax assessment and collection procedures. Getaneh (2011) also studied, tax audit practice in ERCA, the potential tax revenue collection, taxpayer's awareness, tax rules and regulations as well as the forms and instructions provided by revenue authority. These studies did not briefly study issues regarding tax audit practice. Its effect on tax revenue growth and compliance improvement by considering issues such as tax fraud investigations, types of audit performed, appropriate case selection approaches, frequency of tax audit types, tax auditors resources and practice of tax audit assessment. The researcher confirms that absence of empirical study on the case selected particularly on Addis Ababa City Government Revenue Authority Addis Ababa No.1 medium tax Payers Branch Office in the audit area is the actual gap identified which required the research.

Based on these gaps the following research questions will be addressed: How tax audit are practices in Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office with respect to: the types of tax audit frequently performed, Tax audit case selection methods used, Audit techniques applied, frequency of audit performed, and the

adequacy of tax audit resources. Furthermore questions that associated with extent of tax auditors' proficiency and competency; and issue of tax audit practices in Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office will be raised.

1.3. Objective of the Study

1.3.1. General objective:

The main objective of this study is to Assess of Tax Audit Practice In The Case of Addis Ababa City Government Revenue Authority Addis Ababa No.1 medium tax Payers Branch Office.

1.3.2. Specific Objectives

The specifically, this study tries to address the following specific objectives:

1. To assess the types of tax audit frequently performed in Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payer's Branch Office.
2. To assess the audit case selection methods and audit techniques have been use appropriately
3. To assess audit follow up and reporting practiceAddis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payer's Branch Office
4. To evaluate audit engagement in Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payer's Branch Office

1.4. Significance of the Study

The study will have different benefits. In the first place, Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payer's Branch Office understands the existing Tax Audit performance, evaluating Tax Audit practice to make some adjustment in the procedure and strengthens the weakness of Tax Audit practice. In addition, it helps the Authority office tax auditors to know their role in the tax system. Moreover, it may help researchers who would like to know more about the issue and interested in undertaking further and detail studies in tax audit effectiveness as a research title. It is believed that the study may add something to the existing

literature and it will serve as a reference material for those who will conduct further study in the area.

1.5 Scope of the Study

This study has covered the practice of tax auditing in Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payer's Branch Office. Therefore, it does not include other districts and outside Addis. The geographical coverage of the study is only in Addis Ababa in this branch only because of time and financial constraints and also it examines the existing performances or tax audit practice by identifying the main weakness and strength of the tax audit program performed in tax administration. The results of the study may suffer from some limitation, since the paper emphasis on the type of tax audit, audit case selection methods used, examination techniques applied, the effectiveness of audit program in terms of enlightening voluntary compliance & tax revenue performance and the skills & experience of tax auditors specifically.

1.6 Limitations of the Study

This study has faced some limitations; as the data was collected based on self-report of the respondents which may be subjected to certain under or over reporting of some issues related to topic of the study. There was also unwillingness of some respondents to correctly complete the questionnaires. As result of 104 questionnaires distributed to tax auditors and 75 questionnaires' distributed to audited tax payers for respondents, 78 of tax auditors and 69 audited tax payers did correctly filled and return the questionnaire so others did not filled and return. Nevertheless, the problems did not have significant impact on the results of the study, since the researcher tried to understand the data from different angles.

1.7 Organization of Study

The study has organized in to five chapters. Chapter one has incorporated background of the study, statement of the problems, objective, significance and scope of the study. The Second chapter is concerned with the review of different researches and related literature dealing with the assessment of Tax Audit. Third chapter presents methodologies used in conducting the study and description of the study area, research design, data sources, target populations, sampling size, data collection procedures and methods of data analysis. Chapter Four includes the result

and discussion of the study the data collected and analyzed using the data analysis tools. Finally, the last chapter shows conclusion and recommendation.

CHAPTER TWO

2. REVIEW OF LITERATURE

This section covers the meanings of Tax and tax audit, purpose of tax audit features of effective audit program, types of tax audit to be performed, audit case selection methods, examination techniques to be applied for tax audit, and characteristics and required capabilities of effective tax auditors.

2.1 Meaning of tax and tax audit

A tax is a mandatory financial charge or some other type of levy imposed upon a taxpayer (an individual or other legal entity by governmental organization in order to fund varies public expenditure (Charles, 2015). These levies are made on personal income such as salaries, business profit, interest, dividend, discount or royalties to obtain revenue. According to Julia (2018), taxes are involuntary fees levied on individuals or corporations and enforced by a government entity whether local, regional or national- in order to finance government activities. In economics, taxes fall on whoever pays the Burden of the tax, whether this is the entity being taxed, like a business or the end consumers of the businesses goods. a compulsory levy that a government imposes on its citizens to enable it to obtain the required revenue to finance its activities. And the other researchers Lymer and Oats (2009) tax is defined as ‘a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives expenditure, or capital assets, for which the taxpayer receives nothing specific in return’.

Kircher (2008) stated that 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. He further reported that tax audit is a process where the internal revenue service tries to confirm the numbers that you have put on your tax return. And also tax audit is the overall concept of tax inspection and treatment carried out by the tax department by law on the conditions of tax payment and withholding performance of the taxpayers and withholding agents. It includes daily audit and investigation, audit and investigation on special cases.

Okonkwo (2014), tax audit is independent examination of accounts, tax returns, tax payments and other records of taxpayer to confirm compliance with tax laws, rules and regulations and accuracy and correctness of tax paid and adhering to generally relevant accounting principles and standards.

2.2 Purpose of tax Audit

The purpose of tax audit are implementing the national tax laws, investigation and penalizing tax offences, to ensuring the national revenue, safeguarding the tax order, promoting compliance and guaranteeing the implementation the tax laws. Therefore, the tax audit must be based on the facts and the tax laws, regulations and rules rely on the people and strengthen the cooperation with the judicial service and other relevant departments. And Ola (2001) stated that the process of tax audit involves tax returns that are selected for audit using some selection criteria. Thereafter, the underlying books and records of the taxpayers are examined critically to relate them to the tax return filed. Tax audit is important because it assist 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.

2.3 Types of tax audit

There are different types of Tax Audit which are applied in different countries. Oknkwo(2014) opined that the scope and type of audit steps to be executed would depend on type of audit to be performed. These are desk audit or verification, field audit, registration check, advisory audit, record keeping audit, refund audit, issue-oriented audit, comprehensive or full audit and fraud investigation.

a) Desk audit or verification

Disk audit is one which the whole activity of the audit takes place within the confines of the office of the tax officials. In this situation the tax official may simply request the taxpayers to

provide some additional documents to his office to enable him clear some issues in the returns submitted.

In this type of audit, no official notice is given to the taxpayer of the impending desk audit exercise. He only gets to know when letters are written to him requesting for certain documents or explanations. The essence is to ensure some level of compliance with tax laws, rules and regulations as well as performing the administrative checks on returns submitted.

b) Field Audit

A field audit is comprehensive tax audit conducted by tax administration at either the taxpayer's home, place of business or accountant's office, so they can examine your individual or business financial records to ensure you filed your tax return accurately (Will K. 2018). The auditor may also obtain information from other sources such as banks, creditors and suppliers, to confirm items on returns. The audit is conducted at taxpayers' place of business, home, or at the office of their accountant, attorney, or other person who may represent them. The auditor tries to select the place that is most appropriate under the circumstances and most convenient for them.

c) Registration check

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

d) Advisory audits

A visit to newly established business advising them of their obligation in terms of tax types, filling of declarations payment of amount due, records to be maintained and likelihood of audit if

it is considered to be a risk and sanctions that might apply for non-compliance. These visits are very appropriate when introducing new tax laws.

e) **Record keeping audit**

Checks on enterprise that may not announce have a not keeping adequate record. The visit points out the obligations of the taxpayer regarding the keeping of records and followed up with penalties if the taxpayer continues to disregard record keeping requirements (OECD, 2006a).

f) **Refund audit**

Verifying the taxpayer's right to a refund prior to processing the refund. Usually undertaken for first refund claims as well as where the refund claim varies significantly from established patterns and trends. Refund audit carried out particularly for new registrants in addition it should emphasis only on the period covered by the claim (Grandcolas, 2005).

g) **Issue-oriented audit**

It should be directed at verifying item for which errors have been detected in the returns (typical ratios, gross revenue, and comparison of gross sales to imports).it should focus on a single tax type one or two report periods. This type of audit focused on single tax type aspect or single period, given their narrow scope, single audit typically take less time to conduct and can be used to review large number of taxpayers involved in similar schemes to conceal noncompliance (Biber, 2010). For instance it may confine to one item of potential noncompliance that may be apparent from examination of taxpayers return. The auditor may be only examining whether the taxpayers has met obligation in respect of employment tax, value added tax, or examining a specific expense claim.

h) **Comprehensive or full audit**

Comprehensive audit may cover all tax obligations over a number of tax periods, or extended to several years up to the limit provided for in the law. The objective of comprehensive audit is to determine the correct tax liability for a tax return as a whole. All the audit cases where serious underreporting or evasion has been detected under any of other audits should be forwarded to a unit responsible for undertaking comprehensive audits of all tax liabilities (Ebrill, 2001). As this

audit is usually time consuming and costly to undertake, it should only be applied to those taxpayers if there is an indication of under reporting that may impact across taxes. It requires considerable resources and reduces the rate coverage of taxpayers that could otherwise be achieved by a more varied mix of audit types.

i) **Fraud investigation**

Fraud investigation covers all tax obligation over a number of tax periods, or extended to several years up to limit provided for the law.

This is a type of tax audit that investigates criminal, which arises from where the most serious cases of non compliance. According to OECD (2006) the types of tax audit are categorized in different based on the scope and its intensity of the audit performed. Based on the scope and intensity there are different types of audit activities. Those are full audit, limited audit and single issue audit. Scope of full audit is to determine the correct tax liability for a tax return as a whole. Full audit typically entails a comprehensive examination of all information relevant to the calculation of the taxpayer's tax liability for a given period.

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

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.

In practice, 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 is financial and /or business activities are unusually complex.

2.4 The Effective Tax Audit Program

Tax audit is one of the longest standing and accepted compliance strategies in tax administration. It should be effective in the sense of ensuring high compliance by taxpayers efficient in the sense that tax administrative costs are low relative to revenue collected. Good tax administration requires strong technical capacity by the administrative agency but also a well-designed tax. The tax audit program provides visibility to the compliance and enforcement arm of the tax administration (Thomson, 2008). Factor that significantly contributes to tax evasion and tax avoidance is lack of intensive audits and absence of predetermined audit criteria; to mitigate such and so fraud problems, therefore, an effective audit program should be implemented which is capable to investigate, detect and prevent loss of tax revenue (Bello, 2014).

The 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. Furthermore, 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).

It may result in the deterioration of tax compliance and a loss of credibility of the tax administration when audit program in vain. Taxpayers may not be deterred from minimizing their tax liabilities if they believe that there is a little chance of being audited. There are several reasons for ineffective audit programs that are evident in varying degrees in several countries. First, audit typically requires higher level of skills than those needed for most other tax administration tasks, and such skills are sometimes in short supply. Second, the possibility of collusion between taxpayers and tax officials is significant during an audit. Moreover, auditor's errors may damage business activity that makes governments reluctant to support comprehensive audit programs. The development of an effective tax audit program typically addresses coverage (percentage of taxpayers to be audited), selection of audit cases, methods (types of audits to be performed, duration of audit, approaches taken by auditors), staffing and training (staff resources needed to implement the audit program and the training provided for them), and monitoring activities (Ebrill et al, 2001).

Taxpayers must feel that there is a good chance that unreported liabilities and other forms of non-compliance have been detected during an audit (Biber, 2010). Accurate and timely self-assessment and compliance with tax by taxpayers achieved only through highly visible and effective audit programs, including the consistent application of strong sanctions where noncompliance is encountered. The 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. Furthermore, tax audit 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).

A good audit program employs strategies to optimize both the direct and the deterrent effects of audits and also the frequency of audit is a contentious issue, the judgment is always shows balance between the treat of audit to check the temptation to evade and the cost. The first can be achieved by auditing a higher percentage of the large taxpayers (Biber, 2010).

Where the tax system is fairly well established, audits of 15 percent to 20 percent of registered traders a year are sufficient. However, it is not only the crude number of audits that is the most useful measure of need. Voluntary compliance is generally enhanced by increasing the number of taxpayers audited than by auditing fewer taxpayers with large tax potential. Perversely, revenue is increased by concentrating on those taxpayers where a large amount of revenue is at risk. But there should be a careful planning when there is a widespread belief that most tax returns are under reported, otherwise there may be an over selection of returns for audit, with the result that the inventory of work in process may increase to unmanageable proportions and make an orderly approach to an annual audit work plan impossible (Tait, 1988).

Tax compliance can be facilitated through improving services to taxpayers by providing them with clear instructions, understandable forms, and assistance and information as necessary. Monitoring compliance requires information systems as well as appropriate procedures to detect non-compliance. In order to optimize use of resources to meet effectively the audit objectives, it is necessary to plan strategically the allocation of available resources to areas likely to have the greatest impact on compliance, while maintaining a balanced program across the taxpaying

population. Intelligence, research, and analysis need to be used to define risk areas and audits need to be tailored to address the identified risks. It is essential that audit plans developed in an integrated fashion with the involvement of audit management to ensure that there is a matching of the number of case targets to resource availability (Zamaróczy,undated).

Planning an adequate audit strategy is a key success factor in post-fraud detection (where audits are intended to detect tax evasion and fraudulent claims) as well as proactively preventing tax fraud sand evasions (Gupta and Nagadevaran.d).and also Biber (2010) noted that effective planning is required to ensure that the audit program is effectively developed to: (1) focus on and address the most significant risks; (2) target noncompliant taxpayers and not harass compliant taxpayers; (3) make optimal use of limited resources, and (4) influence compliance across the broader taxpayer community. Thus, the actual number of audits planned should depend on the audit resources available to the program.

According to Biber (2010), effective planning is required to ensure that the audit program is adequately developed to: focus on and address the most significant risks, target noncompliant taxpayers and not harass compliant taxpayers, make optimal use of limited resources and influence compliance across the broader taxpayer community.

Characteristics of effective audit plan should be:

1. Flexibility to allow for unusual audit issues, adequacy of internal controls and the adequacy of books and records;
2. Alignment with any quality assurance framework; and
3. A clear focus, with potential areas of concern noted during the preliminary review and audit procedures selected that can address the concerns

2.5 Audit Case Selection Methods

Most of the tax administration lose some percentage of total revenues due to tax evasion and other types of noncompliance known as the “tax gap” Brown et al, (2003:4.Tax administration aims to manage and improve overall compliance with the tax laws and in the processes sustain confidence in the tax system and its administration. Tax audit is a sole treatment for compliance

risk available to administrations that allows exercising effective sanctions (imprisonment and penalties and/or interest). It acts as a public sanction making the extent of the administration's enforcement powers visible within the community and encouraging others to comply (OECD, 2004a). However, tax administrations do not have sufficient resources to perform thorough on-site audits of the activities of all taxpayers or comprehensive cross checking of all invoices or transactions. Tax administration, with limited resources and relatively large numbers of taxpayers to administer (especially in the small and medium enterprises), must design the audit program to deploy audit resources in a risk-based way with a view to achieve the most possible compliance and revenue objective (Thomson, 2008).

Case selection is critical to select audit candidates consistent with program objectives. Whatever the audit objectives have, the ability to narrow the pasture of potential audit candidates is necessary to achieve program objectives and optimal use of audit resources. Regard less of how automated and efficient the audit process, audit effectiveness would not be realized under the selection of inappropriate audit candidates. Hence, managing an effective auditing program involves decisions as to the selection of best audit case strategy or combination of strategies. The selection strategies may vary by tax type. It may be based on either reported tax amounts or the industry type (Barreca and Ramachandran, 2004). Case selection through the use of risk management techniques is necessary to ensure that the audit program is fully in line with the administration's compliance strategy, and to set up the necessary audit trails to show why cases have, and have not, been made the subject of an audit (OECD, 2006a). Ebrill et al. (2001) noted that the most effective systems utilize taxpayer profiles and criteria to identify the highest risks for the revenue. These systems are frequently based on the crosschecking of internal information.

In tax administration, a risk is anything that can negatively affect the administration's ability to achieve its compliance and revenue objectives. Risk management starts with risk identification, which includes a rough estimation of the risk related tax gap, the number of taxpayers involved and possible relations with other risk areas. The tax gap (the potential tax yield minus the actual tax revenues) reflects the financial extent of the risk field. Although the determination of the tax gap is not easy, a rough estimation is usually done. The calculated gap can be further broken down into areas such as barely legitimate tax avoidance, fraud, serious noncompliance, error, and debt. This provides additional information on areas of risks that should be addressed. Strictly

theoretical, the sum of the aforementioned individual risks identified must be equal to the entire tax gap. According to Thomson (2008), compliance risk reduces tax yield, and can be categorized as register risk, filing risk, payment risk, and declaration risk. This classification makes tax administration in a stronger position to determine the appropriate treatment technique.

Register risk includes reduction of tax yield because ineligible taxpayers for tax registration become registered and/or remain registered when eligibility ceases, fail to register by those that fulfill registration requirements, and registration with erroneous information. Payment risk and filing risk are closely related but they should be analyzed separately since the treatments may vary. Payment risk is non-payment of amounts due on tax returns and assessments whereas filing risk is failure of taxpayers to file their returns by the due date. In order to provide the correct preventive and corrective treatments there is a need to be able to target those taxpayers likely to file their returns late, or not at all. Finally, declaration risk is a risk that the amounts shown on

the tax return are incorrect by error or deliberate act and many tax administrations traditionally concentrated on this risk area with the intention of determining which cases should be selected for conducting audit activity. In addition to compliance risk identification, in an efficient audit management structure, there are pre-audit case management factors that need to be recognized to assure the taxpayers in that the burden of audits not fall disproportionately on any segment. These include inappropriate auditors' contact with taxpayers, audit cycle or enquiry window, materiality, and collectability (OECD, 2006).

Inappropriate auditors: Tax administration should have prohibited individual auditors from repeatedly auditing the same taxpayer and to require an auditor to exclude itself from taking up an audit where they are acquainted with the taxpayer selected for audit. Such rules protect both auditor and the customer from the danger of such inappropriate contacts. The policy of repetitive audit procedures may be used which holds that if a taxpayer is audited for non-business issues only (similar to an audit aspect) for the current year and the audit results in no additional taxes owed, the taxpayer is granted relief from audit for the next two years if no substantial changes take place.

Audit cycle or enquiry window: In tax administration tax audit should be started and completed within a predetermined time frame. Regulations may be established to require that all audits must

be started or completed within a predetermined timeframe. However, it gives certainty to taxpayers that after some period of time the danger of audit may pass. Thus, it needs to be supported by powers of discovery to overturn the enquiry window where substantial tax fraud is found.

Materiality: In tax administration noncompliant high-risk item may be selected for audit, the materiality of the projected tax consequence versus the auditor's labor cost of pursuing the high-risk item may override the non-compliance aspect. Tax administration may take where the auditor's labor cost is projected to outweigh the expected tax consequence from an audit, the decision to stop the audit.

Collectability: The collectability concept implies that a taxpayer's inability to pay a future proposed tax assessment would be sufficient basis for not conducting the audit. Those administrations that do not use this concept report that collectability is a secondary objective and should not diminish the primary objective of a correct assessment of tax liability. In addition, the limitation of collectability considerations to the current tax period may not provide a complete financial picture for the taxpayer as it excludes consideration of future payment potential

The common case selection methods include random selection of cases, screening or case review by auditors, rule base and automated risk scoring systems, and data mining and statistical analysis.

Random selection: Random selection has unbiased in audit case selection, and useful to fight corruption. This method is perceived as fair by taxpayers. Simple random selection has a major drawback in that both honest and dishonest taxpayers are equally treated since probability selection give equal chance of being selected for both. However, the criteria or information based selection system too has a drawback in that it presupposes certain clue of noncompliance, which may actually be sign of other things such as change in economic condition in that particular trade.

Screening or case review by auditors: Screening is the traditional method by which audit cases have been selected, and dates from the time when there was little or no IT support, the data available was in any case limited, and the compliance risk management techniques at a strategic

level less well developed. Manual selection of audit cases is based on the auditors own knowledge of the taxpayers' behavior and environment. However, it cannot find out patterns of noncompliance hidden in the history of noncompliance in the same area, sector, or as determined by other taxpayer attributes.

Rule base and automated risk scoring systems: it is used for the high amount of data processing and risk assessment of returns data. The data is reviewed against a set of risk indicators and the results be ranked in terms of the risk of noncompliance identified. Rule base and automated risk scoring systems has its own inherent challenges. First, many of the rules by which a case is scored are dependent on financial ratio analysis and other industry benchmarking that can be changed overtime. The rules also may be, in themselves, standard factors to be achieved when they become known within the population. Thus, attention needs to be given to continually update the risk rules. Second, the rules need to be responsive to the local knowledge of the front line staff who is working on the cases when selected. Final case selections need to be able to reflect the local knowledge of the caseworkers themselves whilst retaining appropriate propriety within the case selection system. Automated selections with no opportunity to be influenced such local knowledge can create resistance and lead to suboptimal working once the cases are underway. In addition, the risk rules need to be responsive to the knowledge gained by front line workers from working their cases. Such knowledge can be about new risks, changes in commercial behaviors, or new technical tax devices and the impact of that knowledge can be significantly leveraged if it can be captured within a flexible and developing set of risk rules. Third, the rules should bring together from dissimilar sources such as tax returns, third party information, and public domain information from internet. This level of analysis requires considerable investment in IT resources.

Data mining and statistical analysis: Data mining is the exploration and analysis of large quantities of data in order to discover meaningful patterns and rules. Organizations use this information to detect existing fraud and noncompliance, and to prevent future occurrences. The use of data mining techniques identifies patterns of noncompliance in the past and those characteristics in the current population. It enables organizations to leverage their data to understand, analyze, and predict on compliant behavior. However, data mining requires significant investments in IT both hardware and software, and it may be difficult to acquire accurate data on which IT program scan

operate. It is a difficult road to go down when electronic infrastructure do not support such investments or the skills are not available to the tax administration. Statistical analysis is often used to examine taxpayer data and to find the correlation between the data and non-compliance.

2.6 Examination Techniques

A tax auditor applies various techniques to examine the books and records behind a return. The techniques to be used depend on the taxpayer and the tax regime concerned. As Biber (2010) noted, an effective case plan can be cognizant of a range of investigative and analytical approaches that may vary depending upon the area of risk and the circumstances of the particular taxpayer. The decision regarding the type of tests to be undertaken as well as the records needed by the auditor to address specific issues is influenced by the nature of the taxpayer's operations, adequacy of books and records, and materiality of potential adjustments. According to OECD (2006a), the techniques used for audit examination purposes include analytical review, investigative approach, field examination, record examination, and counterpart examination.

Analytical review: An auditing procedure based on ratios among account and tries to identify significant changes. Analytical review of financial statements and returns are often completed during the preliminary stages of the audit. Ratios, such as gross profit and inventory turnover are used to test the accuracy of taxpayers' reported sales, cost of sales, or ending inventory. The unusual variances (abnormal deviation of calculated ratios from the previous experience) are addressed during the interview with the taxpayer and additional audit procedures developed where necessary.

Investigative approach: tax administration auditors use an investigative approach in their audits. Such an approach uses information obtained through observation, discussion, documents or records obtained from either the taxpayer or other sources.

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

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

Counterpart examination: It is performed based on third party information where warranted. Information can be obtained during the course of an audit from third parties to verify the taxpayer's income, for example:

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

2.7 Audit Workforce Capabilities

The tax administration must manage and develop their audit workforce to deliver their planned outcomes through increasingly designing and implementing capability or competency models. Capability or competency model refers to a formal specification of the skills, knowledge and attributes of staff that are required to perform a specific job in an efficient and effective manner. The model generally contains job descriptions, functional descriptions and competency profiles using task-related competencies. It is typically supported by training and educational requirements to ensure and build capability. Different capabilities are required for work performed in different market segments or on clients exhibiting different behaviors towards tax compliance. Typical points of difference are capabilities required for noncompliant aggressive clients, audit work with large businesses (deeper and more specialized knowledge about specific regulations is required for this segment), performing system and electronic data base audits, and conducting criminal and fraud cases (OECD 2006b).

Required capability: The required capabilities of auditors are generally identified by analyzing the activities required to perform particular audit tasks, and through practice and experience. In addition to their primary role of detecting and deterring noncompliance, tax auditors are often required to interpret complex tax laws and conduct intensive examinations of taxpayers' books and records. Revenue bodies pay close attention to the overall management of the tax audit

function, and particularly to the strategies and methods used for recruiting, developing and managing individual audit staff. Thus, tax auditors should have a capability to: conduct investigations, determine compliance, tax accounting and financial analysis, conduct research and analysis, make effective decisions under the law, effective communication, apply work processes and procedures, and manage own work and relationships. In addition to the required core capabilities, greater attention and emphasis is needed on soft skills and other attributes. These include behavioral and motivational competencies, personal attributes such as work and integrity, feeling for the detection of fraud and irregularities, observe and detect relevant indicators in surroundings, identifies patterns and describes their significance to the situation, and effective observational skills. Familiarity with basic accounting, bookkeeping, and business and industry practices is also generally expected for all staff. Moreover, the required capabilities of audit managers and directors are typically identified based on the notion of coaching, communication, and leadership skills. The required capabilities for audit managers and directors often focused on leadership and management skills, technical expertise, advanced audit skills, achievement orientation, ability to develop and coach others, high level communication skills, and ability to make strategic decisions.

Competency assessment: It is any system for measuring and documenting personal competency. The goal of competency assessments is to identify problems with employee performance and to correct these issues before they affect patient care. A competency assessment is important for tax administrations to assess and evaluate the competencies of their staff. An initial competency assessment may rival the need for specific training of the employee. It should be conducted at regular intervals during employees' tenure. Assessments are performed as part of recruitment processes are often performed by external specialists, human resource departments and/or panels of internal subject matter experts. Other events triggering capability assessments include prior to performing a new type of work, prior to starting a new role, and ongoing informal assessments and learning and development activities (OECD, 2006b).

Improving competency and addressing capability gaps: Competency improvement should be integrated (not be seen as extra task) into normal business activities. Together with tax auditing or training departments, human resource departments (where applicable) often have joint responsibility and be significant contributors to the improvement process. Revenue bodies may

develop staff and address capability gaps through recruitment processes and the use of programs such as training and development programs, mentoring and coaching programs, accreditation models, job rotation and placement programs, career paths, knowledge sharing initiatives and knowledge tests. Capability gaps are typically gathered from various sources including quality management system results, performance system interviews and appraisals, client professionalism, satisfaction and other similar surveys, and training program evaluations.

Tax administration in order to maintain standards of auditing it is essential that auditors are given both initial training (classroom and on-the-job instruction) to bring auditors up to the required level, and continued training so that their skills are kept up to date and relevant. The extent and nature of this training and the balance between the two varies according to need, and relates to the recruitment and development policies adopted. Initial training varies depending on the level of qualifications and experience expected of new recruits. For instance, recruit staff without professional qualifications need much more extensive initial training in tax law and auditing, in house testing is generally used to confirm that trainees reach the required standard. To deliver ongoing training and development, a number of methods are used including training courses; computer based training packages, memos, guidance notes, self-study packs, facilitated workshops and discussion forums, on-the-job training, coaching and mentoring, and virtual university and learning tools. As a rule, continuing professional training is not normally examinable and the amount of training undertaken varies between countries and over time.

2.8 Empirical Studies

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

Appelgren (2008) studied that, the effect of information regarding different audit strategies on taxpayers' compliance behavior in Sweden. The study is conduct with the intent of examining whether the taxpayers in reality behave as expected by theory of tax audit. Experimental design is use to test the effect of information regarding different audit strategies on taxpayers' compliance behavior. The results of the study indicate strongly that information concerning the use of rational audit strategies is superior to information concerning random audits, and that

audit information, in general, is superior to no information. The information concerning the rational audit strategy reduces tax fraud compared to no information.

The study by Gebeyehu (2008) was an attempt to trace out, the basic concepts of tax audit, and analyze the significance and role of tax audit in increasing tax revenue and in strengthening tax administration capacity. The methods adopted include questionnaires (both open and close-ended), personal interviews, and document analysis by using documents such as published materials, annual reports, magazines and internet. In general, the study mainly focused on the issues of personal income tax and business profit tax.

The study by Assamenew (2011) also studied the most taxpayers lack sufficient knowledge of tax assessment and collection procedures. Thus, most of taxpayers do not know why they are paying taxes; what types of taxes have expected from them; and the applicable rules and regulations. The factors mentioned in the analysis of this study, negligence, delay in tax payment and evasions have taken by taxpayers as solution to escape from payment of taxes.

Getaneh (2011) also studied, tax audit practice in ERCA. The study adopts mixed research approach. In the study, questionnaires for the tax auditors and investigators, an in-depth interview with tax officials and taxpayers, and documentary analysis used to collect relevant data. The results of the study indicated that, in Ethiopia the key source of revenue for the government of Ethiopia is tax followed by external loan grants and assistances. However, the potential tax revenue are not collected due to absence of taxpayer's compliance with the tax law both deliberately and unknowingly. In addition, the level of taxpayer's awareness is relatively poor, and taxpayers are incapable to understand the stated tax rules and regulations as well as the forms and instructions provided by revenue authority.

2.8 Summary and Knowledge Gap

Tax audit practice is a current issue for both developing and developed countries. Some studies declared that audits have a positive impact on tax evasion (Shanmugam, 2003; Dubin, 2004: cited in Palil and Mustapha, 2011). These findings suggest that tax audits can play an important role and their central role is to increase voluntary compliance. There is no sufficient theory regarding tax audit activities. In the theoretical review, to the knowledge of the researcher, there is no standard as to

the percentage of audit methodologies to be conducted in a given tax authority. In addition, there is no adequate literature regarding the appropriate audit examination techniques to be used for checking the accuracy of tax returns in line with the level of economy and technological advancement, developing countries in particular.

The empirical studies that have been review in the preceding section(like study conducted byGebeyehu, 2008; Getaneh, 2011 and Asamenew, 2011) focused on the different audit strategies that affect tax compliance behavior, income tax in particular, and the use of sampling tax audit strategy for improving the tax audit coverage. In addition, most prior studies regarding tax audit issues tried to examine the possible audit strategies including the use of audit information for the purpose of compliance improvement and fraud detection, and the impact of component reporting requirements on taxpayer incentives to misstate the tax liability.

The study by Gebeyehu (2008) was specific to income tax in Addis Ababa City administration, and mainly focused on the way of increasing government revenue. The study of Getaneh (2011) was specific to practice of tax audit assessment in ERCA. Asamenew (2011) also studied the most tax auditor's lack of sufficient knowledge of tax assessment and collection procedures. These studies did not briefly examine issues regarding tax audit practice. Its effect on tax revenue growth and compliance improvement by considering issues such as tax fraud investigations, types of audit performed and, appropriate case selection approaches, frequency of audit for other tax types, tax auditors resources and practice of tax audit assessment in Ethiopia.

Based on these gaps in the literature together with the problems stated in section of chapter one, and in order to attain major objective of the study, the following research questions will be addressed: How tax audit are practices in Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office with respect to: the types of tax audit frequently performed, Tax audit case selection methods used, Audit techniques applied, frequency of audit performed, and the adequacy of tax audit resources. Furthermore questions that associated with extent of tax auditors' proficiency and competency; and issue of tax audit practices in Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office will be raised.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Research Design

In this study, the researcher used descriptive research methods. As Jackson, (2009), descriptive research methods are three types; those are observational methods, case study methods and survey methods. Observation is a systematic data collection approach. Researcher uses all of their senses to examine people in natural settings or natural occurring situations. In the case study research involves an in-depth study of an individuals or group of individuals. Case studies often lead to testable hypothesis and allow us to study rare phenomena. In the survey methods research participants answer questions administrated through questionnaires or interviews. After participants answer the questions, researchers describe responses given. In order for survey to be both reliable and valid it is important that the questions are constructed properly. From this point of view the researcher adopted survey methods.

The researcher applied descriptive analysis using the fact that a descriptive research design used to describe the data and characteristic about what was been studied. Descriptive survey also enables to obtain the current information Paul et al (2009). It was also use in fact finding studies and helps to formulate certain principles and give solutions to the problems concerning local or national issues. In addition to this survey design is a research method that provides a quantitative or numeric description of trends, attitudes, or opinions of participants with the intent of generalizing from a sample to a population (Creswell, 2009).

3.2. Population of the study

The study conducted in Addis Ababa City Government Revenue Authority Addis Ababa No.1 medium tax Payers Branch Office. According to the data from the Addis Ababa City Government Revenue Authority Addis Ababa No.1 medium tax Payers Branch Office, there are 4,500 taxpayers and audited companies from year 2016/2017shows 752. Taxpayers are selected from five sub cities in Addis Ababa, such as Addis Ketema, Kolfekeranio, Yeka, Gullele, and Arada sub city. Total number of employees have worked in Addis Ababa No.1 medium taxpayers are 353 employees, from these, 104 are tax auditors.

The target population of this study is both the tax auditors who have worked in Addis Ababa City Government Revenue Authority Addis Ababa No.1 medium tax Payers Branch Office and taxpayers who are audited in 2016/2017. The total number of tax auditors and taxpayers audited in 2016/2017 are 104 and 752 respectively.

3.3. Sampling and Sample size

Sampling is the process of choosing smaller and more manageable number of study units from a defined study population. Determination of economical sample size is a major challenge for a researcher in conducting a survey (Bordens and Abbott 2005). There is no standard rule for the determination of sample size. Both large and small sample sizes have their own limitations. Too large a sample might become unmanageable and too small a sample might be unrepresentative. The main determination of sample size is representativeness of the sample to a population. Therefore, the correct sample size depends on the purpose of the study and the nature of the population under study (Cohen, 2000). By convenience, 10 percent of a population can represent the entire population. Therefore, the researcher took 100 percent of tax auditors and 10 percent of taxpayers who are audited in 2016/2017 representative of the sample frame in purposive sampling techniques.

Table 3.1: Sampling Technique

Respondent	Population	Percentage	Sample size
Tax auditors	104	100%	104
Audited tax payers	752	10%	75

3.4. Source of Data

The study used primary data. The primary data obtained from tax auditors and taxpayers through questionnaire in the Addis Ababa City Government Revenue Authority Addis Ababa No.1 medium tax Payers Branch Office. The questionnaire comprised both closed and open-ended questions. Closed ended questions are quicker and easier both for respondents and for researcher. Most of the closed ended questions are designed on an ordinal level of measurement basis, and

others are designed as multiple choice. Adding open-ended questions allows respondents to offer an answer that the researcher will not include in the questions.

The questionnaire's reliability and validity checked before use. According to Zikmund et al, (2010) reliability is an indicator of a measure's internal consistency. Consistency is the key to understanding reliability, therefore the concept of reliability revolve around consistency. On the other hand validity is the accuracy of a measure or extent to which a score truthfully represent a concept. One of the common methods to test the reliability and validity of data collected through questionnaire is use of Cronbach's alpha coefficient.

As stated earlier, the questionnaire was developed with due care containing 22 items; Items in the questionnaire were prepared using a five point-Likert scale except the demographic items and open ended questioners. Maximum effort was exerted to create logical link between the items in the questionnaire and the objectives of the study. In order to ensure content validity of the items incorporated in the instrument, professionals and advisers have examined the instrument before it was distributed.

The reliability of any given measurement refers to the extent to which it is a consistent measure of a concept. Cronbach's alpha is a measure used to assess the reliability, or internal consistency, of a set of scale or test items. The researcher tested the reliability of the internal consistency of items incorporated in the instrument which were developed for respondents as a pilot test. The value for Cronbach's Alpha (α) was .802 from the 22 questionnaires.

3.5. Data analysis

The research used descriptive statistics data analysis techniques for classification and analysis of data after collected. The analysis was conducting a clear analysis about the tax audit practice. The method of data analysis primary sources of data is analyzed using descriptive analysis, and the rationale for choosing this method of data analysis is that it allows in describing, summarizing and presenting the qualitative data and quantitative methods

The required data has been collected through survey questionnaire. The link of research questions and research methods adopted in this particular study has also presented with proper justification in method selection in line with the strength and weakness of each research method.

Therefore, the data has analyzed through descriptive statistics using Statistical Packages for Social Scientists (SPSS) version 24, Data collected using questionnaire was table's, frequency distribution and percentage, graphs used to present the data. With this end, the next chapter presents the results and analysis of the study.

CHAPTER FOUR

RESULTS AND DISCUSSION

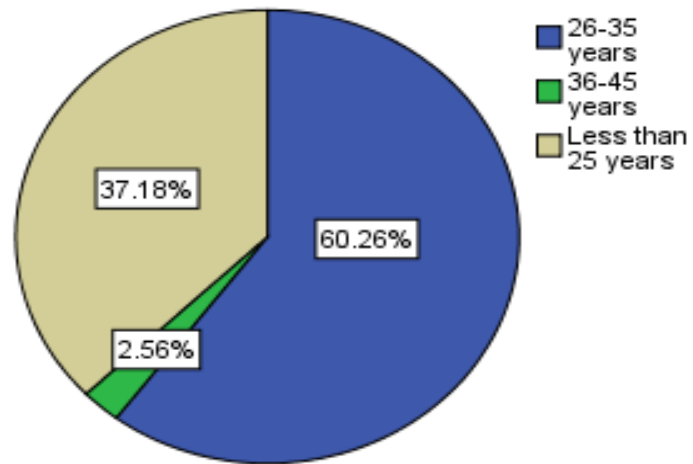
4.1 Introduction

This chapter presented data analysis, presentation interpretation of findings on data collected from Addis Ababa City Government Revenue Authority Addis Ababa No. 1 Medium Tax Payers Branch Office in tax auditors and tax payers in questionnaires. The population size for the survey was 104 tax auditors and 75 audited taxes payers. So that 104 tax auditors and 75 audited taxpayer's questionnaires were distributed. But, the survey response was collected from only 78 tax auditors and 69 audited tax payers.

Background of respondents of tax auditors

This section describes respondents' general information of age, field of study, education level, and experience of auditors. Age, Educational levels, field of study and work experience of the tax auditors in general are the most important variables that can affect the performance of tax audit. Generally the respondent's background information status is presented below. The tax audit work requires time and energy which involves sitting for long hours during audit then the age affects audit work. Tax audit should be support with the appropriate experience and education in order to be more effective with in a relatively shorter period. Hence, tax auditors with more experience tend to perform best audit practices, achieve superior audit outcomes, and gain outstanding audit success.

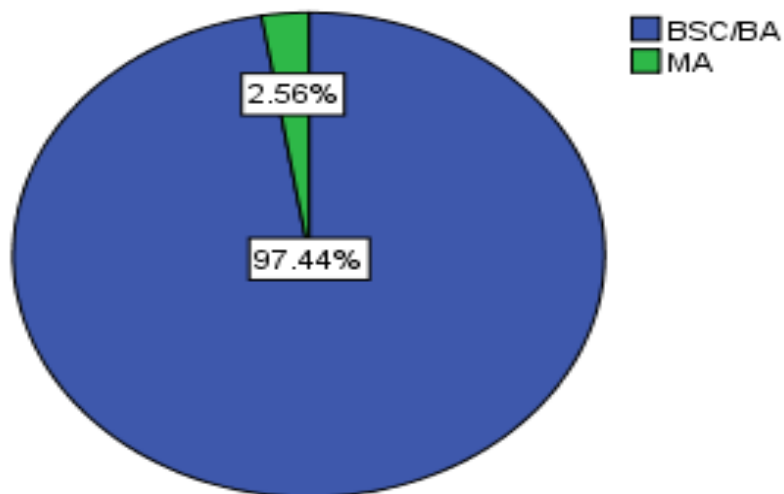
Figure 4.1: Employees Age



Source: Field survey, 2018

Regarding the age distribution of respondents, 97.44% of them fell within the active labor force group out of which 2.56% were between 36 to 45 years. This may be attributed to the fact that the audit work requires time and energy which involves sitting for long hours during audit work.

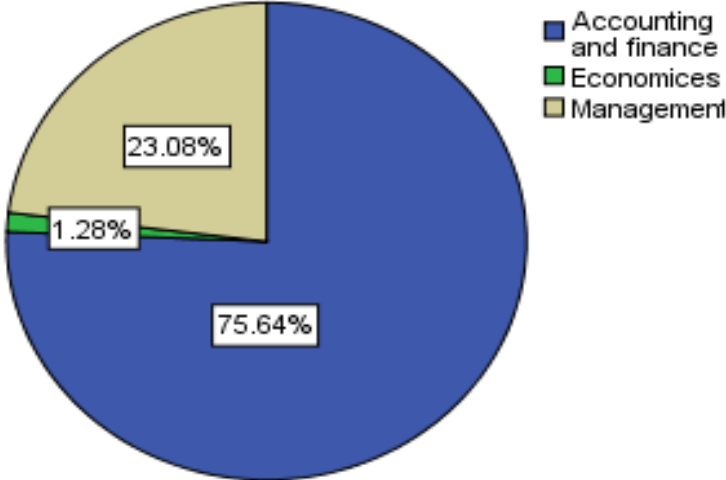
Figure 4.2: Educational level



Source: Field survey, 2018

Education levels that have attained 76(97.4%) respondents were BA degree holder, 2(2.6%) attended MA/MSc. This figure 4.2 indicate that a small number of respondents were highly educated shown by the 2(2.6%) of respondents who had postgraduate Degrees, however 76(97.4%) of the respondents were Degree holders, in this regard, the greatest number of respondents with filled the questioner higher level of educational status so easily understand the tax audit practice due to the educations.

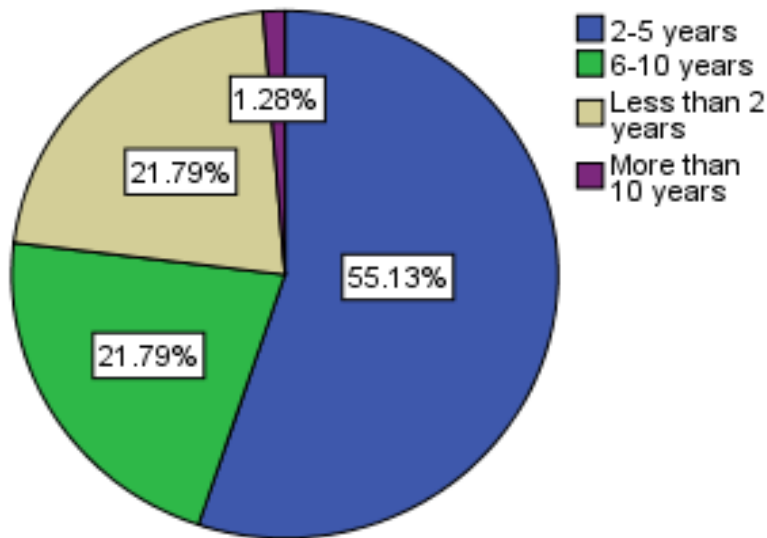
Figure 4.3: Field of Study



Source: Field survey, 2018

In regarding field of study, majority of the respondents are specialized in Accounting and Finance which accounts for 59(75.60%) of the total population. The remaining 18(23.10%) were specialized in management and 1(1.3 %) of Economics. Most of them are accounting and management graduated, to be an auditor a person has deep knowledge of accounting and management theory and principles therefore, the findings indicated that an organization audit staff almost might have sufficient knowledge of their field of study. Then the researcher concluded that educational level attainment of respondents is good and which could be relate to their profession.

Figure 4.4: Work Experience



Source: Field survey, 2018

As indicated figure 4.4, 17(21.80%) of the respondent tax Auditors have service year less than 2 years, 43(55.10%) of the respondent have service years of 2-5years, 17(21.80%) of respondents have 6-10 years and 1(1.30%) of respondents have more than 10 years.

In case of working experience, most of the respondents have no enough experience in their current position in figure 4.1. They work less than 5year.This implies that the tax auditors had no enough experience.

Table 4.1 Types of tax audit performed

Item	Variables	Tax auditors response	
		Frequencies	percent
1	Field audit	6	8
2	Desk audit	41	53
3	Comprehensive audit	75	96
4	Issue Audit	24	31
5	Refund audit	12	15
6	Fraud investigation	18	23

Source: Field survey, 2018

The survey results showed multiple answers possible on the table 4.1 that Addis Ababa City Government Revenue Authority Addis Ababa No. 1 Medium Tax Payers Branch Office conducts comprehensive audit 95%, desk audit 53%, field audit 8%, issue audit 31% refund audit 15% and fraud investigation 23%. This indicates tax administration was used different types of tax audit. But tax administration mostly used the comprehensive audit type. It is used to determine the correct tax liability for a tax return as a whole. As this audit is usually time consuming and costly to undertake, it should only be applied to those taxpayers if there is an indication of under reporting that may impact across taxes. It requires considerable resources and reduces the rate coverage of taxpayers that could otherwise be achieved by a more varied mix of audit types.

Table 4.2: Previously audited taxpayers with no tax liability selected for the next audit

Previously audited taxpayers with no tax liability selected for the next audit		Frequency	Percent
	Yes	49	62.8
	No	29	37.2
	Total	78	100

Source: Field survey, 2018

In table 4.2, 62.8 per cent of respondents stated that taxpayers are selected for audit in the current period although those taxpayers were audited in the previous period and no audit liability owed found with them and also 37.2 percent says are not selected for next audit. This shows that previously audited the same taxpayers with no tax liability in consecutive time period. This result consumes more time.

Table 4.3: Tax auditors repetitively audit the same tax payer in consecutive period

Tax auditors repetitively audit the same tax payer in consecutive period		frequency	percent
	Yes	7	9
	Sometimes	47	60.3
	No	24	30.8
	Total	78	100

Source: Field survey, 2018

Regarding audit frequency as show in Table 4.3, 60.3% of tax auditors stated that sometimes similar tax payers are selected for audit in a consecutive periods, 30.8 % of the respondents stated that tax payers who audit in previously were not selected for the next audit, the remaining (9%) respondent stated that there is a possibility to audit similar tax payers in consecutive years. This shows that taxpayers are selected for audit in consecutive time period. As indicated in the below table 4.4 taxpayers are selected repetitively in fraud case.

Table 4.4: The reason that audit the same tax payers in consecutive time period

Item	Variables	Tax auditors response	
		Frequencies	percent
1	Taxpayers reported less than previous period report	1	15
2	Tax fraud case	4	77
3	Taxpayers have large amount of tax potential	2	31

Source: Field survey, 2018

As indicated on the table 4.4 77% repetitive audit is done when serious tax fraud is found with taxpayers;31% repetitive audit is performed when large amount of tax potential found with tax payers, and also 30% of respondents answered that such audit is performed when taxpayers report less tax return than the previous period. As indicated in the table 4.4 taxpayers are selected repetitively in fraud case.

Table 4.5: Primary reasons that tax auditors expected to perform during an audit period

Item	Variables	Tax auditors response	
		Frequencies	percent
1	To aware tax payers	36	46
2	To clarifying tax rules and regulations for taxpayers	18	23
3	To collect information health of tax system	24	31
4	To detect compliance behavior	6	8
5	Others		

Source: Field survey, 2018

As indicated on the table 4.5 (more than one answer possible question) the reason of tax audit, 46% percent of survey respondents showed that to aware taxpayers, 23% of respondents replied that taxpayers to clarifying tax rules and regulations for taxpayers,31% also stated that to collect

information health of tax system and the others 8% to detect compliance behavior. The result indicates that tax audit performed to aware taxpayers.

Table 4.6: Tax auditors can get the information

Item	Variables	Tax auditors response	
		Frequencies	percent
1	Review of prior tax histories	66	85
2	Using information of third parties	60	77
3	Using business sector profile	54	69
4	Others		

Source: Field survey, 2018

As indicated table 4-6, Majority of respondents agreed that tax auditors get information from by reviewing previous case history of taxpayers, third party and taxpayer's business profile. In other words in table 4.6 ,Indicates that 85 percent of respondent of tax auditors were getting information from review of prior histories.77 percent of respondent tax auditors answered that tax auditors get necessary information of Taxpayers from third parties. And also 69% of respondents said tax auditors get information from business sector profile. In addition to this in other open ended questioner information would get from by using computer and by interviewing the taxpayers. So tax auditors get information from different sources. Generally tax auditors get more information from by review of prior tax histories.

Table 4.7: The measurement of performance tax audit

	frequency	Percent
Efficient	29	37.20
Medium	36	46.20
Weak	6	7.70
cannot determine	7	9
Total	78	100

Source: Field survey, 2018

As indicated table 4.7, 46.20% the respondent's replied that the performance of tax audit was medium, 37.20% of the respondents answered that the performance of tax audit was efficient. And also 7.70% and 9% of the respondents 'replied that the performance of tax audit was weak and I cannot determine in respectively. In generally the performance of tax audit was medium. This indicates that medium integration of audit strategy with the tax administration overall strategy.

Table 4.8: Effectiveness of tax audit measure by productivity

	frequency	percent
Yes	66	84.60
No	12	15.40
Total	78	100

Source: Field survey, 2018

In response to the question on effectiveness of tax audit measure by productivity, 84.60% indicated that they say measure the productivity and 15.40 % indicated that they do not measure the productivity. But the survey result shows that the audit performed by tax administration was very low.

Table 4.9: Effectiveness of tax audit measure by volume of the audit performance

effectiveness of tax audit measure by volume of the audit performance			frequency	Percent
	Yes		60	76.90
	No		18	23.10
	Total		78	100

Source: Field survey, 2018

The respondents were further asked effectiveness of tax audit measure by volume of the audit performance. In all, 76.90% yes that effectiveness of tax audit measured by the volume of the audit performance. The remaining 23.10% said that effectiveness of tax audit measured by the volume of the audit performance. The respondents agreed that the effectiveness of tax audit was measured by volume of tax audit or coverage of tax Audit performed. But the report in open ended questioner and the survey result show that the audit performed by the tax administration was very low.

Table 4.10: Audit case selection

Item	Audit case selection	Percentage				
		Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	Tax auditors choose audit cases manually based on their own information of tax behavior and environment		61.5	15.4	23.1	
2	availability of resource for tax audit is the bases of case selection		38.5	39.7	15.4	6.4
3	Taxpayers help to give essential information necessary for performing audit selection	21.8	30.8	38.5		9
4	Tax auditors case selection is based on tax payers high tax potential	7.7	53.8	7.7	30.8	
5	Tax auditors pick audit cases randomly without any further investigation	6.4	23.10	15.4	55.10	
6	Audited taxpayers are chosen based on previous tax audit results	14.10	15.4	7.7	62.8	

Source: Field survey, 2018

On the subject of Case selection on table 4.10, 61.5 per cent of the respondent tax Auditors replied that taxpayers have been selected based on their own information of taxpayers behavior and environment. 39.7% of tax Auditors neutral that case selection was not based on the availability of resources. In others, 38.5% shows that taxpayer’s neutral to select for tax audit was based on tax payer essential information necessary for performing an audit. Item four of Table 4.10 elicits that case selection is based on tax payer’s high tax potential. More than 55.10 percent of the survey result shows that case selection was not based on the randomly without any further investigation. As 62.8 percent respondent tax auditors’ response, taxpayers were not select for audit when they on previous tax audit results. Generally table 4.10 depicted that tax auditors selects cases based on associated risk and their own information of taxpayers.

As in open ended questions result, tax auditor’s conduct tax Audit based on the interview of the owners associated risk and also the taxpayers want to shut down their business or change type of

business, they inform to administration and the Authority assign Auditors to perform the Audit work.

Table 4.11: Tax audit program

Tax audit program		Percentage				
		Strongly Agree	Agree	Neutral	disagree	Strongly Disagree
1	The audit work to be started within a programmed time frame	11.50	41		47.40	
2	The audit work to be completed within a determined time frame		28.20	30.80	41	
3	Auditors continuously assess to improve the tax audit program.	15.40	74.4		2.60	7.70
4	Audit is performed based on audit manual	11.50	69.20	5.10	14.10	
5	Lack of independence experienced during tax audit.	5.00	47.40	24.40	21.80	

Source: Field survey, 2018

In table 4.11 More than 47.4 percent of the respondents agreed that the audit work was not start and 41% of the respondents agreed that the audit work was not complete with in predetermined time frame .74 percent of the respondents rated on “agree” on continuously assess to improve that tax audit program. 69.20 percent of the respondents “agree” audit is performed based on manual. And also 47.40% “agree” tax auditors were not independent. These show that Auditors were not independent. This means the tax auditors to the questions implying high independency and to those questions, which referred to as the tax auditors are not free from other influence. From this, it is clear that the audit quality and organizational independence had the highest effect on tax audit effectiveness with comparing audited attributes, organizational setting and top management support constructs.

In open ended questioner tax auditors in Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Offices were not use the standard time to start

and complete the audit due to complexity of taxpayers' business transaction and the size of the taxpayers. As the result of the survey, tax auditors not start and complete the audit work as standard time frame and the office does not produce report for separate annual plan of tax audit program.

Table 4.12: The purpose of tax audit

Item	Purpose of tax audit	Percentage				
		Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	The main purpose of tax audit performed in tax administrations is to ensure compliance in accordance with tax law.	20.5	53.8	25.6		
2	The main purpose of tax audit performed in tax administrations is to assess tax revenue.	9	75.6	15.4		
3	The main purpose of tax audit performed in tax administrations is to collect additional tax revenue.	12.8	24.4	7.7	23.1	32.10

Source: Field survey, 2018

According to table 4.12, 53.8% of the respondent tax auditors replied strongly agreed that tax audit performed in tax administration was to ensure compliance in accordance with tax law. The study reveals that 75.6% of the respondents agreed that the tax audit performed in tax administration was to assess tax revenue. And also 32.10% strongly disagree that tax audit performed in tax administration was to collect additional tax revenue.

The primary purpose of tax audit performed in tax administrations is to ensure compliance with tax law and the submission of accurate and current returns for proper computation of tax liability. For tax audit to take place effectively, tax payers must perform their duties toward the submission of accurate and current returns of their operations. In this study, all the respondents agreed that the primary purpose of tax audit is to maintain the confidence in the integrity of the self-assessment system. It helps to improve voluntary compliance by detecting and bring to book those who do not pay the correct amount of tax.

The open ended questioners' tax auditors also showed that the purpose of tax audit is primarily to assess unreported income and additional revenue for the Government. The respondents further stated that the duty of taxpayers' awareness creation is unquestionable to increase voluntary compliance and to mitigate compliance risks. As a result, Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office provides training and exam regarding tax law and tax audit issues at the time of recruitment before engaged in tax audit activities.

Table 4.13: Tax audit resources

Item	Tax audit resources	Percentage				
		Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	An adequate amount of materials for audit program are available.	7.70	47.40	14.10	30.80	
2	Well experienced staffs are available.	10.3	17.90	11.50	39.70	20.50
3	Tax administration has enough audit staff to perform onsite audits for all taxpayers.		15.40	21.80	62.80	
4	Offices are well organized.	9.0	14.10	10.30	42.30	24.4

Source: Field survey, 2018

For the effective and efficient tax audit not only the skill and qualification of tax auditor's but also adequate amount of materials necessary for audit have greater impact. Table 4.13, 47.40% shows that Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office has enough materials and equipment to facilitate audit program. In the above table 4.13 of majority of respondents were not responded that the tax administration have well experienced audit staffs to perform an audit.

According to the table 4.13, more than 62.80 percent of respondents indicate that Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office has no enough audit staff to perform onsite audit on all taxpayers. Table 4.13 indicates that only small portion of the respondents 15.40% of tax auditors were agreed that the authority has enough staff s to conduct on site audit. The survey result on Table 4.13 shows that the tax administration has no enough audit staff to perform on site audit.

The result shows that in Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office has no a well-organized office to perform an Audit. The tax administration has no organized offices to perform audit work as well as to put taxpayers' document in a safe way. Generally, tax administration has no enough audit staffs, no well experienced staff and not well organized offices. This leads to ineffective audit work.

Table 4.14: Techniques of checking tax payers

Item	techniques of checking tax payers	Percentage				
		Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	Observing documents of taxpayer's are conducted to check the accuracy of tax returns	9	51.3	17.9	21.80	
2	Discussing with taxpayer's are conducted to check the accuracy of tax returns	6.40	48.7	21.8	7.7	15.4
3	Reviewing documents of taxpayer's are conducted to check the accuracy of tax returns	6.40	51.3	10.3	32.1	
4	Review financial statements are conducted to check the accuracy of tax returns.	6.1	59	12.8	9	12.8

Source: Field survey, 2018

Regarding techniques used to check the accuracy of taxpayers documents and record. More than 51.3 percent of the respondents agreed that Observing documents of taxpayer's are conducted to check the accuracy of tax returns, 48.7 percent of respondent tax auditors replied that, Discussing with taxpayer's are conducted to check the accuracy of tax returns, 51.3 percent of respondent tax auditors replied that, Reviewing documents of taxpayer's are conducted to check the

accuracy of tax returns and other aspects (59 percent) were the means review financial statements are conducted to check the accuracy of tax returns.. The survey result showed that tax administration used different techniques for checking the accuracy (Table 4.14).

Table 4.15: Background information of audited taxpayers

Variables		Frequency	Percentage
Education level	Certificate	14	20.30
	Degree	3	4.30
	Diploma	7	10.10
	others	45	65.20
Business experience	6-10 years	21	30.40
	Above 10 years	48	69.60

Source: Field survey, 2018

This section describes respondents’ general information of education level and business experience. Education levels that have attained 14(20.3%) respondents were certificate, 3(4.3%) attended degree, 7(10.10%) respondents’ attended diploma and 45(65.20) others.

4.17 audited taxpayers

As shown the below table 4.16, majority of the respondents 58% replied that the audited taxpayers have no aware the tax laws and regulations. On the other hand, 31.9% respondent replied audited taxpayers are aware the tax laws and regulations. The findings indicated that, audited taxpayers’ have no aware of tax rules and regulations. On the issue that taxes auditors are provide update information about the tax systems, 60.90% of the respondents disagreed, 20.30 agreed on the statement, 8.70 % said they did not know whether they had provide update information about the tax systems or not (neutral) and the remaining 10.10% strongly disagreed to this statement. This obviously shows that taxpayers are not willing to provide update information about taxes system.

The statement of respective tax auditors give attention to their willing to help audited taxpayers, 18.8% of the respondents agreed and 81.2% disagreed. From this analyzed data, it was disagree by the respondents that to help audited tax payers.

As can be observed from table 4.16, though the majority respondents disagreed that provide forms are not easy to understand, tax advice are not given about the procedures of tax payment, rules and regulation of tax audit are not easy to access and have no clear instruction as prescribed by tax auditors.

As indicated on the table 4.16, more than 50.7% of respondents indicate that Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office has no enough audit staff to perform on site audit on all taxpayers and also majority of respondents replied that tax auditors have lack of experience. Table 4.16 indicates that only small portion of respondents 23.10% of audited taxpayers were agreed that the authority has enough staff s to conduct on audit. The survey result on Table 4.16 shows that the tax administration has no enough audit staff to perform on site audit.

The respondents were further asked whether that tax administration has adequate offices available to provide service for tax payers. In all, 50.70% disagreed that they had not adequate office which 23.10% agreed to this statement. The remaining 26.10 % said they did not know whether they had adequate office or no (neutral). This results show that the tax administration has not adequate office to provide service for taxpayers.

As tax payers audited in consecutive time period, 65.20% of respondents simply disagreed to this statement, 34.80% agreed to this statement. This results show that the audited taxpayers are not audited consecutive time period.

Regarding audited taxpayers in the open ended questioners audited taxpayers replied that taxpayers not have awareness about tax type of goods and services exempted from tax, reporting and filing requirements of the tax law. The respondents further stated that audited taxpayers are communication problems in tax auditors. This communication problem leads to mistrust the tax auditors.

Table 4.16: Audited tax payers

Statements		Percentage				
		Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1	Aware of the tax rules and regulations.		31.9	10.10	58	
2	Tax officer provides updated information about the tax system.		20.3	8.70	60.90	10.10
3	Have clear instruction as prescribed by tax auditors		29	71		
4	Forms provide by Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office are easy to understand		20.30	24.60	55.10	
5	Tax auditors are willing to help tax payers		18.80		81.20	
6	Tax auditors advice regarding the procedures of tax payment		24.60	14.50	39.10	21.7
7	Adequate offices available to provide service for tax payers.		23.10	26.10	50.70	
8	Adequate number of staffs available in the office.		14.50	27.50	56.50	1.40
9	Tax auditors has lack of experience		53.50	13	29	4.30
10	Are the tax auditors fair during tax audit		15.90	8.70	65.20	10.10
11	Rule and regulation of tax audit are easy to access.		17.40		68.10	14.50
12	Audited in consecutive time period		34.80		65.20	

Source: Field survey, 2018

When asked about the reason behind that audit your organization, 94.20% indicated that it is done to check the tax evasion.33.3% said it is done to sensitiveness of the taxpayers business and 10.10% said it is done by change of business type. From this analyzed data, it was to check the tax evasion from audited taxpayers.

Table 4.17: The reason behind that audit your organization

Item	Variables	Audited taxpayers response	
		Frequencies	percent
1	To check the tax evasion	65	94.20
2	Do you to sensitiveness of business	23	33.30
3	Do you to change of business type	7	10.10

Source: Field survey, 2018

In terms of tax liability owed during audited 79.7% of the respondents said yes out of which 20.3% said no to this statement. The result shows in table 4.19 below lack of tax awareness.

Table 4.18: Organization tax liability owed during audited

Organization tax liability owed during audited		frequency	percent
	Yes	55	79.7
	No	14	20.3
	Total	69	100

Source: Field survey, 2018

On this statement the behind that tax liability owed during audited, 73.9% stated that they had lack of awareness, 18.80% replied that the weakness of tax administration while 24.6% said that liquidity of the organization. The survey result on Table 4.19 shows that the majority of tax liability owed during audited was lack of awareness of audited tax payers.

Table 4.19: The reason behind that tax liability owed during audited

Item	Variables	Audited taxpayers response	
		Frequencies	percent
1	Lack of awareness	51	73.9
2	Weakness of tax administration	13	18.8
3	Do you to liquidity	17	24.60

Source: Field survey, 2018

In a follow-up question as tax administration give training to the audited taxpayers, 71% of the respondent said no that they are not give training and 29 % of them yes to this fact. The results also indicated that tax administration do not give training for audited tax payers.

Table 4.20: The tax administrations give training

The tax administration give training		frequency	percent
	Yes		20
No		49	71
Total		69	100

Source: Field survey, 2018

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATIONS

This chapter deals with conclusions drawn from the findings of the study and recommendations forwarded in order to improve the tax audit practice in Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office. The chapter is structured in two sections. The first section deals with conclusions and the second section presents recommendations suggested to improve the problems identified in the study.

5.1 Conclusions

The tax administrators used to apply a system of administrative or provisional assessment when dealing with individual tax payers. Now the current orientation of the Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office is directed towards the promotion of more self-assessment. For this reason, the audit practice which is currently in place needs to be improved. If this is done properly, the tax administration would be well positioned to take on the tax audit and to tactically incorporate it in its operations.

It was found out that the Tax auditors had no well-organized offices to perform audit work as well as to put taxpayers' document in a safe way. Although, there was no enough tax auditors and tax auditors was not independent (free from influence). Finally it might have a negative impact on audit effectiveness in tax administration.

From survey of tax audit in tax administration, training was not considered as vital activity and which does not justify much attention. There are a few training professionals on staff. The emphasis of staff training is on teaching the contents of tax laws as disparate to applying the laws. The tax office does not offer sustainable training to create tax awareness by taxpayers. Furthermore, Lack of clarity in the tax law in interpretation.

Based on the survey results of audited taxpayers, the study found that there exit lack of tax knowledge by tax payers. Most of them do not know the rules and regulations of different types of taxes they pay. Besides, taxpayers do not get update information and do not properly assist the taxpayers and also tax auditors are not fairly auditing the tax payers'.

Furthermore, the office does not produce report for separate annual plan of tax audit program. The results in open ended questioners showed that the tax administration has faced different financial, operational and administrative problems and challenges to handle the taxpayers. It might be consider as the implemented tax collection and assessment system is not successful. That is, there exists inefficient and insufficient number of tax auditors in the tax administration.

5.2 Recommendations

Based on the findings obtained in the study, the following recommendations are made: The tax administration must maintain adequate management information system to help taxpayers on time. So that, taxpayers must receive clear, concise and up-to-date information from tax administration what is taxable, how to calculate their tax liabilities, which type of tax exemption(tax free) and procedures for calculating paying taxes, where and when they pay taxes in addition to this the tax office should offer sustainable training and prepare discussion or forum for collaborators with taxpayers and government bodies as they have direct or indirect contributions for the implementation of the tax and also to increase the awareness and to give attention to educate communities as well as taxpayers through different techniques.

Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office free from influence (make independent) the tax auditors to audit findings to perform their tax audit work effectively and efficiently.

Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office should have organized offices to perform tax audit, it needs to put taxpayers' document in safe way and easily to perform their tax audit work.

Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office to give more attention for the tax auditor continuous training should be provided, working environment should be improved and, maintaining tax fairness and equity, building capacity of the tax authority, conducting extensive awareness creation programs, and also to maintain public trust and confidence in the performance of tax administration.

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QUESTIONNAIRE TO BE FILLED BY TAX AUDITORS

This questionnaire is designed to meet the objective of research titled “Assessment of Tax audit practice in Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office.” Therefore; the data from this questionnaire will help the researcher to obtain reliable and valid information. Your open and genuine response is highly appreciated.

Do not write your name on the questionnaire.

The questionnaire has two parts: Part -I is about your personal information. Part-II is the overall questions about Tax audit practice. Please read each item carefully and give your honest response to each item.

Thank you for your cooperation!

Part –I: Background information

Please provide your responses by marking a tick (√) in the relevant boxes.

1. Age: 1. Less than 25years 2. 26-35 years 3.36-45 years 4. Above 46years
2. Education: 1. Certificate 2. Diploma 3.BSc/BA 4. MSc/MA and above
3. Field of study: 1. Accounting & finance 2. Economics 3. Management
5. Others, Please specify _____
4. How long have you worked as an auditor?
1. Less than 2 years 2. 2-5 years 3.6-10 years 4. Above 10

Part - II Question regarding Tax audit practice

5. What types of Audit are performed by your organization (more than one answer is possible)?

1. Field Audit 2. Desk Audit 3. Comprehensive audit
4. Issue audit 5. Advisory audit 6. Registration Audit
7. Refund Audit 8. Fraud investigation 9. Other

6. Previously Audited tax payers with no tax liability selected for the next audit.

1. Yes 2. No

7. Do you audit the same tax payer in consecutive period?

1. Yes 2. Usually 3. Sometimes 4. No

8. What is the condition those taxpayers may be audited, If your answer for Q 7 is yes. (More than one answer is possible)

1. Do you to taxpayers reported tax returns less than previous period return
2. Do you to tax fraud case is found
3. Do you to taxpayers have large amount of tax potential
4. Other please specify-----

9. What are the primary actions that tax auditors expected to perform during an audit period?

To aware taxpayer's

To clarifying complex tax rules and regulations for taxpayers

To collect information on the health of the tax system including compliance behavior

To detecting noncompliance behavior of individual taxpayer

Others please specify_____

10. How do you measure performance of tax audit?

1. Efficient 2. Medium 3. Weak 4. I cannot evaluate

11. How tax auditors can get the required information? (more than one answer is possible)

1. By review the prior case histories of taxpayers.

2. Using information from third parties

3. Using business sector profile

4. Others, please specify _____

12. Are effectiveness of tax audit measure by productivity and yield of audit?

1. Yes 2. No

13. Is effectiveness of tax audit measure by volume of the audit performance?

1. Yes 2. No

Put a “√” mark in one of the columns provided for each possible indicator. Use the scales: Strongly agree (5), Agree (4), Neutral (3), Disagree (2), strongly disagree (1)

Audit case selection		Strongly Agree	Agree	Neutral	disagree	Strongly Disagree
14	Tax auditors choose audit cases manually based on their own information of taxpayers behavior and environment					
15	Availability of resource for tax audit is the bases of case selection					
16	Tax payer give essential information necessary for performing an audit case selection.					
17	Tax auditors case selection is based on taxpayers high tax potential					
18	Tax auditors pick audit cases randomly without any further investigation					
19	Audited tax payers chosen based on previous tax audit results					

20. Specify any other information that can relate with audit case selection.

Tax audit program		Strongly Agree	Agree	Neutral	disagree	Strongly Disagree
21	The audit work to be started within a programmed time frame					
22	The audit work to be completed within a determined time frame					
23	Auditors continuously assess to improve the tax audit program.					
24	Audit is performed based on audit manual					
25	Lack of independence experienced during tax audit.					

26. Any additional information on tax audit program, please specify it.

The Purpose of Tax Audit		Strongly Agree	Agree	Neutral	disagree	Strongly Disagree
27	The main purpose of tax audit performed in tax administrations is to ensure compliance in accordance with tax law. .					
28	The main purpose of tax audit performed in tax administrations is to assess tax revenue.					
29	The main purpose of tax audit performed in tax administrations is to collect additional tax revenue.					

30. If you have any other information about the purpose of tax audit, please mention it.

Tax audit resources		Strongly Agree	Agree	Neutral	disagree	Strongly Disagree
31	An adequate amount of materials for audit program are available.					
32	Well experienced staffs are available.					
33	Tax administration has enough audit staff to perform onsite audits for all taxpayers.					
34	Offices are well organized.					

35. What kinds of audit resources are not available?

Techniques of checking tax payers liability		Strongly Agree	Agree	Neutral	disagree	Strongly Disagree
36	Observing documents of taxpayer's are conducted to check the accuracy of tax returns					
37	Discussing with taxpayer's are conducted to check the accuracy of tax returns					
38	Reviewing documents of taxpayer's are conducted to check the accuracy of tax returns					
39	Review financial statements are conducted to check the accuracy of tax returns.					

40. What kind of techniques should be adopted to check taxpayer's liability?

41. Any additional information on tax audit administration and tax audit program in Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office?

SAINT MARY UNIVERSITY
SCHOOL OF GRADUATE
QUESTIONNAIRE TO BE FILLED BY AUDITED TAXPAYERS

This questionnaire is designed to meet the objective of research titled “Assessment of Tax audit practice in Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office.” Therefore; the data from this questionnaire will help the researcher to obtain reliable and valid information. Your open and genuine response is highly appreciated.

Do not write your name on the questionnaire.

The questionnaire has two parts: Part -I is about your personal information. Part-II is the overall questions about Tax audit practice. Please read each item carefully and give your honest response to each item.

Thank you for your cooperation!

Part –I: Background information

Please provide your responses by marking a tick (√) in the relevant boxes.

1. Education: 1. Certificate 2. Diploma 3. BSc/BA 4. MSc/MA and above 5. Other

2. How many years' experience in your business?

1. Less than 2 years 2. 2-5 years 3. 6-10 years 4. above 10

Put a “√” mark in one of the columns provided for each possible indicator. Use the scales: **Strongly agree (5), Agree (4), Neutral (3), Disagree (2), strongly disagree (1)**

Statements		Strongly Agree	Agree	Neutral	disagree	Strongly Disagree
1	You are aware the tax rules and regulations of Ethiopia.					
2	Tax officer provides updated information about the Ethiopian tax system.					
3	Have clear instruction as prescribed by Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office.					
4	Forms provide by Addis Ababa City Government Revenue Authority Addis Ababa No.1 Medium Tax Payers Branch Office are easy to understand					
5	Tax auditors are willing to help tax payers					
6	Tax auditors advice regarding the procedures of tax payment					
7	Adequate offices available to provide service for tax payers.					
8	Adequate number of staffs available in the office.					
9	Tax auditors has lack of experience					
10	Are the tax auditors fair during tax audit					
11	Rule and regulation of tax audit are easy to access.					
12	Audited in consecutive time period					

13. Specify any other information in audited in your organization.

14. Why audit your organization? Which one do you believe that audited your organization (multiple answer is possible).

To check the tax evasion

Do you to sensitiveness of business

Do you to change of business type

Other pleas specify _____

15. Does your organization tax liability owed during audited?

Yes

No.

16. If your answer is yes to question number 15, what is the reason?

Lack of awareness

Weakness of tax administration

Due to liquidity

Others, please specify _____

17. Does the tax administration give training?

Yes sometimes No.

18. What are the main problems of tax administration? How can improve the progress of Tax administration and tax audit program? _____
