THE PRACTICE AND CHALLENGES OF TAX REVENUE AUDIT IN JIMMA ZONE REVENUE

A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE COLLEGE OF BUSINESS AND ECONOMICS JIMMA UNIVERSITY IN A PARTIAL FULFILMENT FOR THE REQUREMENTS OF MSC IN ACCOUNT AND FINANCE

SET BY KIYA LULU

ADVISOR: MATEWOS KEBEDE(PhD)

CO-ADVISOR SENTAYOW TULU(MSC)

JULY,2020

JIMMA , ETHIOPIA

DECLARATION

I, kiya lulu declare that, this paper prepared for the partial fulfillment of the requirements for (MSC) in Accounting and Finance entitled **“**the practice and challenges of tax revenue audit in jimma zone revenue is prepared with my own effort. I have made it independently with the close advice and guidance of my advisor(Dr mathewos kebede),and co. Advisor Sentayow Tulu (Msc) I, also declare that this thesis is my original work and that all sources of materials used for the thesis have been duly acknowledge .

Declared ; by

Name : Kiya Lulu

Signature--------------------

Date-----------------------

Approved by the board of examiners

Advisor : Matewos .K (PhD)   signature: ---------------- Date:-----------

Co-Advisor Sentayow .T (Msc) signature:----------------- Date:------------

Examiner :------------------- signature:--------------   Date:----------------

Examiner :------------------- signature:--------------   Date:----------------

Acknowledgment

First and for most I would like to extend my heartfelt gratitude to my creature God and willingness who helped me through my life, my gratitude thanks goes to my advisor Dr. Mathewos K. (PhD) and Co-Adviser Sintayew for their valuable effort for the process of my paper and for their constructive and harmonious comments which have give me a benchmark for their stance with me.

Acronym

OECD Organization for Economic Co-operation and Development

AAA American Accounting Association

RAP Repetitive Audit Procedures

IT Information technology

EFDRE Federal Democratic Republic of Ethiopia

GDP Gross Domestic product

VAT Value Added Tax

JZRA   Jimma Zone Revenue authority

Abstract

The purpose of this paper is to analyze the practice and challenges of tax revenue audit in Jimma zone revenue. The main objective of the study The generally objective of the study was to investigate the practice and challenges of tax revenue audit in jimma zone revenue authority. The Specific objectives includes To identify types of tax audit frequently used in the revenue authority ,To assess tax audit case selection techniques ,To evaluate the major challenges of tax audit practice in Jimma zone revenue authority and To evaluate the existing performance of tax audit program of Jimma zone .For this end, with the intention of getting the relevant information, this study considered only tax audit of the authority as population of the study. Since number of the population is very small, this study considered the whole tax auditors and top level of the management. The Tools of Data Collection , Questionnaires This method of data collection is used to collect the necessary information from the sample respondents. To do this, both open-ended and closed ended questionnaires were prepared and distributed to both employees and leaders of the organization.. Questionnaires are prepared in English language . However, if there is any confusion in the question during the data collection, the research gave more explanation to the question in person. To analyze the collected data descriptive statistics such as frequency and percentages were applied. From the data analysis, it was conducted compressive tax audit was performed tax audit type, The limited capacity of management and leadership, The commitment of leaders at JZRA on tax audit related issues, The standard time frame on the manual was not sufficient to perform and conclude complex cases And the problem of resources and facilitates for tax auditor. Lastly it is suggested that the authority should revise the time frame allocation and give more time for complex cases, should supply sufficient necessary audit materials for auditors to facilitate their work and provide suitable and free work environment.

Key Wards: Tax, Tax Audit Practices, Challenges, Tax Auditor, Tax Payer

Contents

CHAPTER ONE

INTRODACTION

1.1 **Back ground of the study**

The term tax audit is an examination of whether a tax payer has correctly assessed and reported their tax liability and fulfilled other obligations (OECD,2006). It is also independent examination of the books and accounts an organization by a duly appointed employee to enable that employee gives an opinion as to whether the give a true and fair view and comply with relevant statutory guidelines (Awe,2008). According to Biber(2010), the role of an audit program in modern tax administration must extend beyond merely verifying a taxpayer's reported obligation and detection of description between a taxpayers declaration and support documentation. This that effective audit program extend beyond raising the government revenues. Thus tax audits needed to increase tax revenue and taxpayers compliances. Any tax in tax system is vulnerable for evasion and fraud, which has become the concern of many countries. Tax fraud is an intentional reduction of the tax liability stemming from real transactions. As Baurer(2005) noted, it is a deliberate misrepresenting or concealing the true state of their affairs to the tax authorities o reduces their tax liability .

A tax (from a latintaxo) is a compulsory financial charge or some other type of levy imposed up on a taxpayer (an individual or legal entity) by a governmental organization in order to fundvarious publicexpendituresA failures to pay. A long with evasion of or resistance totaxation,is punishable by law.Tax is compulsory levy, imposed by government or other tax raising body. On income expenditure, or capital assets, for which taxpayers,recives nothing specific in return (lymer and oats 2009).

However, usual tax is vulnerable for evasion and fraud ,which has become the concern of many countries .As Baurer(2005) noted .Tax fraud is a deliberate misrepresenting or concealing the state of their affairs to the tax authorities to reduce their tax liability .It typically includes under reporting profits, over stating deductions , under reporting employee wages, failures to register or file tax declarations, hiding of taxable receipts coming from the production and distribution of real products and services and abuse of tax return through fictitious transactionand trades.

Tax audit play critical role in the administration of tax laws through their detection of non-compliance and by serving as aderrent to the wider population of taxpayer who might otherwise engage in non-compliant behavior (keen and smith 2007).So the major objective of this study was to assess the tax audit revenue authority practices and challenges injimma zone at jimma town. particular emphases on the type tax audit frequently performed ,tax audit case selection methods used .techniques applied ,frequency of audit performed adequacy of tax audit resources , and extent of tax auditors proficiency and competency.

The government of Ethiopia has several options to finance its public expenditures and pursue its fiscal policy. These options include imposing of taxes on businesses and persons, and non tax revenues such as services fees, money print, loans (both domestic and foreign institutions), property and investments income privatization of public enterprises and domestic and foreign grants Among others, tax along with customs collections is an important source of revenue for every government, and is a heart to a country wellbeing (Damme et al.2008).

1.2. Statement of the problem

With the increasing of task of government ,the role taxation in economic development has become even more significant .such goals addressed through taxation like maintaining and expanding adequate system of social services ,the curtailing of unnecessary consumption of luxury items ,the maintaining of economic stability and the raising of funds for capital formation are justified .In general the fundamental principle of the tax structure is the mobilization of economic surplus .Weak tax administration may make the tax system unfair in the honest taxpayers would bear heavier and disproportional burden .It, in turn may have impact on the efficiency of tax operational ,and may encourage business to work in the illegal economy .

The tax system in Ethiopia is not only meant to raise revenue for current expanditures but also aims at directing economic agents to the development goals foreseen by the government through the incentive schemes embedded within the prevailing tax laws (Jebessal and Quincke,2005).Accurately designed and administered taxation system is very important in generating revenue as well as increasing the tax base to the government of developed ,developing and transactional economics Tax base of developing countries adversely affect by administration problem including poorly conceived tax policies and luck of certainty regarding future policy changes.

In addition, taxpayer as they impose onerous reporting and record keeping requirements perform excessive inspection and audit, fail to deal with their corrupt employee, and failures to provide transparency in the operations of tax administration (Bauree, 2005). Like many other jurisdictions, Ethiopian tax system is fraught with evasion .One factors that significantly contributes to tax evasion is lack intensive audits and absences of predetermined audit criteria ,to the greatest possible extent ,tax system , should be supported by clear and straight forward laws and procedures that facilitate revenue collection ,develop taxpayers.

Awareness and minimize taxpayers effort and compliance costs. The administration should be provide with appropriates enforcement tools, including conduct of because it assist the government in collecting appropriates tax revenue necessary for budget maintaining economic and financial order and stability .Thus tax audit became a bridge that is beloved to connect taxpayers with the tax authority .and it could also fill the gap by exposing tax evaders and teaching those that have knowledge gap on in the tax laws. Hence existences of efficient and effective tax audit structure within a tax authority could guarantee optimum tax collection and increased societal awareness towards the existing tax laws. In order to meet this requirement, tax audit should be performed by highly skilled, knowledgeable and committed auditors .However, as noted by Ebrill et al.(2001).several developing countries do not yet have effective audit programs due to in sufficient numbers of required. Qualified and appropriate paid audit practitioners, absence of a sound institutional audit practices, illegal cooperation between taxpayers and auditors lack of a clear political support for the tax administration and the deficiency of an appropriate legal and judicial environment. Thus this study would attempt to address the mentioned problem and would reach on a reasonable conclusion that would in turn support recommendations that could follow.

1.3. objectives of the study

1.3.1The generally objective

The generally objective of the study was to investigate the practice and challenges of tax revenue audit in jimma zone revenue

1.3.2 Specific objectives

- To identify types of tax audit frequently used in the revenue authority
- To assess tax audit case selection techniques
- To evaluate the major challenges of tax audit practice in Jimma zone revenue authority
- To evaluate the existing performance of tax audit program of jimma zone

1.4 Research Questions

1 What types of tax audit are frequently performed in Jimma revenue authority?

2 How the Jimma Zone revenue authority select cases for audit ?

3 What are the major challenges of tax audit practice in Jimma Zone Revenue authority?

4 What are the existing performances of tax audit in the Jimma Zone Revenue Authority?

1.4. Significance of the study

The outcomes of this research work have some purposes. One important purpose of the study is providing the relevant recommendations which help as an inputs for Jimma Zone revenue authority (JZRA) to re-examine the practice of ta audit in the authority and performance of its tax auditors so that to take corrective action for the future.

1.5. Scope of the study

The study limited on the data which was obtained from Jimma Zone Revenue Authority. This study the tax audit practice and challenges in the case study of jimma zone.

1.6. Structure of the study report

This study will be presented in five chapters. The first chapter deals with introduction including background of the study, statement of the problems, objectives of the study, scope and limitation of the study. The second chapter will be present review of the related literature, it will present reviewed theoretical literatures from differences books and journals, and then previous related studies will be critically discussed under empirical section that supports the findings of this research.

The third chapter concentrates on methodology of the study specifically it will made discussion on research design, data sources sample and sampling techniques, data collection tools and method of data analysis, reliability and validity issue of the instrument, as well as ethical consideration . In the fourth chapter, the data collected for the study will be analyzed in detail and the findings of them will be presented and discussed. Finally, the fifth chapter presents conclusions and recommendation based on findings.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

This chapter is organized in three sections. The first section reviews theoretical studies on tax audit in the tax administration system while the second sections present the empirical evidence on tax audits and related issues. The final section provides concluding remarks on the review of the literature and identifies the knowledge gap that has been addressed in the study.

2.1. Theoretical Review

Audit is systemic and independent examination of books, accounts statutory records, documents and vouchers of an organization to ascertain how for the financial statements as well as non-financial disclosures present a true and fair view of concern.

2.2. Tax audit

An audit is the independent examination of financial statement of related financial information of an entity, whether profit oriented or not, and irrespective of its size, or legal form, when such an examination is conducted with a view to expressing an opinion thereon. The American Accounting Association (AAA) (2008) has provided a broader definition of audit which refers to a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertion and established criteria and communicating the results to interested users.

A tax audit is one of the most sensitive contacts between the tax payer and a revenue body, the presence of an auditor in a taxpayer’s private dwelling or business premises, coupled with the exploration of private and business issues and the gathering of information from taxpayer’s books and records, or just the disruption of day-to-day work flow, represents a burden on the taxpayer (OECD 2006b).

Most taxpayer’s report their tax liabilities more accurately if they believe that the tax administration has the capacity to detect any unreported liabilities and that heavy penalty may be applied when they are detected (Biber 2010). Thus, tax audit results in increased tax revenue in two ways: (1) directly through assessment of additional taxes; and (2) indirectly by discouraging underreporting of liabilities by all taxpayer's. Further, Barreca and Ramachandran (2004) noted that the purpose of tax audit is to check the evasion of tax and ensure compliance in accordance with the laws and regulations.

The following subsections discuss thoroughly about tax audit in a tax administration system that includes characteristics 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.

2.3. Types of Tax Audit

Tax audits can vary in their scope and the level of intensity to which they are performed. The nature of audits conducted should reflect the risks to be addressed and desired audit coverage of the taxpayer population. Too many narrowly focused spot (issue) audit provides a high level of audit coverage but at the expense of audit quality, tax revenue, and missed opportunities to properly detect taxpayer's noncompliance. On the other hand, audit activities with an excessive number of in-depth examinations reduce the numbers of audits that might be conducted, possibly leading also to less overall deterrent effect (OECD 2006a).

Therefore, it is inappropriate to carry out all audits on the basis of comprehensive examination of documentation across all tax obligations and all periods that could be open for amendment. Such approach waste resources targeting compliant taxpayers and limit the number of audits that can be undertaken. Therefore, revenue bodies should aim to achieve a balanced program of audits that considers audit coverage, audit quality, and overall deterrent considerations (Biber 2010).

As Ebrill et al. (2001), Grandcolas (2005), Harrison and Krelove (2005),and Biber (2010) noted, tax audit program in a function based administration includes 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. The following briefly reviews these tax audit types.

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

b) Field Audit:

Field Audit is a detailed examination of taxpayer's books and records to determine whether the correct amounts were reported on the tax returns. The auditor may also obtain information from other sources such as banks, creditors and suppliers, to confirm items on returns. A field audit usually includes one or more of the following taxes: income, franchise, sales and use, withholding, and excise taxes. 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 form of unannounced visits to taxpayer's premises for new enterprises (mainly small and medium sized) to detect businesses operating outside the tax system. As Ebrill et al. (2001) stated, during 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. This type of visit is a quick check on businesses to establish that they are correctly registered. It should not take more than half a day.

d) Advisory audits:

It involves the auditor's visit to newly established businesses. They advise them regarding tax types, filing of returns, payment of amounts due, record keeping to be maintained, refund claims, risk of audit and sanctions of noncompliance. These visits are very appropriate when introducing new tax laws.

e) Record keeping audit:

It is unannounced visits to the taxpayer's business premises to check whether the appropriate records are kept and VAT invoices are issued. The visit points out the obligations of the taxpayer regarding the keeping of records and followed up with penalties if the taxpayer continues to disregard record keeping requirements.

f) Refund audit:

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

g) Issue-oriented audit:

It should focus on a single tax type and covers no more than one or two reporting periods. Single-issue audits are confined to one item of potential noncompliance that may be apparent from examination of a taxpayer's return. Given their narrow scope, single-issue audits typically take less time to conduct and can be used to review large numbers of taxpayers involved in similar schemes to conceal noncompliance.

h) Comprehensive or full audit:

A compressive audit is a compressive examination of all information relevant to the the calculation of a taxpayer's tax liability for a given period. This audit may cover all tax obligation over a number of tax periods, or extended to several years up to the limit provided for in the low (Ebrill,2011) as cited by Mekonnen(2017). The classification depends on a number of factors ranging from size, group trade or profession, volume of records or transactions, nature of business and location.

In practices, the scope and nature of the any compressive audit activity to be undertaken depended on the available evidence pointing to the likely risk of non-compliance and tax payers history. An audit may also be classified and justified as complex or complex because of the tax payer’s financial and /or business activities which are usually complex. Given the broad scope, in terms of time and resources compressive audit typically costly to undertake and thus it is better to reduce the coverage of taxpayers that could otherwise be audited.

i) Fraud investigation:

It is criminal investigation that arises where the most serious cases of noncompliance that have criminal implication- fraud, evasion, and criminal activity- are detected. Such investigation requires special skill including meeting evidentiary requirements, seizure of evidences or records, testimony from key witnesses and preparing briefs for courts. Hence, it should be undertaken in accordance with criminal procedure laws. As OECD (2004a) stated, tax authorities should maintain a dedicated organizational unit responsible for the handling of serious cases of tax fraud or evasion.

2.4. The Effective Tax audit Program

The tax audit program provides visibility to the compliance and enforcement arm of the tax administration (Thomson 2008). 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. Tax evasion can be brought to light only by a means of an effective audit program (Tait 1988). Tax audit also helps tax agencies to achieve revenue objectives that ensure the fiscal health of the country and individual states. It derives voluntary compliance and generates additional tax collections, both of which help tax agencies to reduce the tax gap between the taxes due and the amount collected (Barreca and Ramachandran 2004).

Furthermore, a well-structured tax audit program can provide valuable support in gathering information on the health of the tax system (including patterns of taxpayers’ compliance behavior), educating taxpayers (improving future compliance), and identifying areas of the tax law that require clarification (OECD 2006a). Accurate and timely self-assessment and compliance with tax by taxpayers is achieved only through highly visible and effective audit programs, including the consistent application of strong sanctions where noncompliance is encountered. Taxpayers must feel that there is a good chance that unreported liabilities and other forms of non-compliance have been detected during an audit (Biber 2010).

When an audit program is ineffective, it may result in the deterioration of tax compliance and a loss of credibility of the tax administration. Taxpayers may not be deterred from minimizing their tax liabilities if they believe that there is a little chance of being audited (Ebrill et al. 2001). This author further noted that, 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. A good audit program employs strategies to optimize both the direct and the deterrent effects of audits. The first can be achieved by auditing a higher percentage of the large taxpayers (Biber 2010). Although the frequency of audit is a contentious issue, the judgment is always a delicate balance between the treat of audit to check the temptation to evade and the cost. 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 (Tait 1988). In the case of VAT, Ebrill et al. (2001) stated that effective VAT audit program should cover a 25 to 30 percent of the taxpayers each year. In addition, VAT audit need to be closely coordinated with other tax liabilities especially income tax. Since most countries have integrated VAT and income tax administrations, the development of an effective VAT audit program significantly improves income tax compliance.

The deterrent effect is best achieved by extending the program to as many taxpayers as possible at all levels (Tait 1988). Through 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 frauds and evasions (Gupta and Nagadevara, undated). Biber (2010) noted that effective planning is required to ensure that the audit program is adequately 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.According to OECD (2006a), audit plan provides a path to follow to ensure that the audit is performed effectively and efficiently. However, it should not be treated as set in stone once created. Case planning must be a flexible tool and the original audit plan should be reviewed and updated regularly during the course of the audit.

2.5. Audit Case Selection Methods

Compliance risk is the failure to comply with the tax law by taxpayers whether due to their ignorance, carelessness, recklessness, deliberate evasion/weaknesses in tax administration itself, and have been addressed only by enforcement through an audit-based approach (OECD 2004a).

However, tax administrations do not have sufficient resources to perform thorough on-site audits of the activities of all taxpayers or comprehensive crosschecking 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; and OECD 2004a).Accordingly, the first key to successful audit is the case selection methodology. It 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. Regardless of how automated and efficient the audit process, audit effectiveness would not be realized under the selection of inappropriate audit candidates (Milack undated). 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 is a formalized and systematic approach, based on sound analysis, designed to set the best course of action under the uncertainty of risk. The technique involves identifying, assessing, understanding, and acting on risks that impinge on the organization's ability to achieve its objectives (Thomson2008). 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 (EC 2006).

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 (EC 2006).

According to EC (2010) and 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 (EC 2010).

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 notfall disproportionately on any segment. These include inappropriate auditors contact with taxpayers, audit cycle/enquiry window, materiality, and collectability (OECD 2006).

Inappropriate auditors:

It is useful to have regulations to preclude 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 (RAP) 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. The intent is to eliminate non-productive and time-consuming audits for tax authorities, and to reduce the hardship associated with repetitive audits for fully compliant taxpayers (OECD 2006a).

Audit cycle or enquiry window:

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 (OECD 2006b).

Materiality:

Although a 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 (OECD 2006a).

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 (OECD, 2006a).

According to Barreca and Ramachandran (2004), Audit selection methods range from simple random selection to more complex rule-based selection, sophisticated statistical and data mining techniques. Selection strategies can vary by tax type and even within a single type. The common case selection methods include

Audit cycle or enquiry window:

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 (OECD 2006b).

Materiality:

Although a 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 (OECD 2006a).

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 (OECD, 2006a).

According to Barreca and Ramachandran (2004), Audit selection methods range from simple random selection to more complex rule-based selection, sophisticated statistical and data mining techniques. Selection strategies can vary by tax type and even within a single type.

The common case selection methods includecase 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:

It has no bias in audit case selection, and useful to fight corruption. This method is perceived as fair by taxpayers. However, it clearly not focused on highest risks, may have high opportunity cost if used as sole case selection method (Vellutini, 2010). As Gupta (undated) noted, 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 (OECD, 2006).

Screening or case review by auditors:

It 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. Such a methodology has a benefit that it makes full use of local knowledge, creates significantly less caseworkers resistance, can be used to attack specifically defined risks and can be operated substantially without IT support (OECD 2004a and OECD 2004b). 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. It also favors rent seeking and corruption in the tax administration since it is discretionary and subjective approach (Vellutini, 2010).

According to OECD (2004a), the challenges inherent in relying on caseworker selection are: it relies on a limited data set with no systematic cross reference to other data available within the administration's system; caseworkers regardless of their experience can miss aspects of noncompliance with which they are non-familiar; those with the knowledge to undertake such screening are usually those with the skills to undertake the substantive intervention. Thus, there is an opportunity cost in asking them to undertake such screening. Modern standards of propriety indicate that there should be a gap between those selecting cases and those functioning cases.

Rule base and automated risk scoring systems

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. Finally, the rules need to have the capability to be changed reasonably and quickly to take in to account new strategic appreciation of compliance risk. Once again, if the rules are themselves hardwired in to IT coding then this may be a resource intensive business (OECD, 2004a).

Data mining and statistical analysis:

It is becoming increasingly common to base case selection methodologies on the results from statistical analysis. As Barreca and Ramachandran (2004) stated, 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 noncompliant 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 programs can 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 (OECD 2004a). As OECD (2004b) noted, statistical analysis is often used to examine taxpayer data and to find the correlation between the data and non-compliance. It typically involves using prior tax audits results, which are then analyzed in conjunction with taxpayer data.

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 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 noted and addressed during the interview with the taxpayer and additional audit procedures developed where necessary (OECD, 2006).

Investigative Approach: Auditors are encouraged to use an investigative approach in their audits. Such an approach uses information obtained through observation, discussion, documents or records obtained from either the taxpayer or other sources. It requires judgment, imagination and using information outside the accounting records to perform the audit (OECD, 2006).

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 (OECD, 2006).

Record Examination: The main approaches to detect false accounting include the examination of books and documents conducted at the taxpayer's business office or branches, counterpart examinations and examination of savings and deposit accounts (OECD, 2006).

Counterpart Examination: It is an examination performed based on third party information where warranted. OECD (2006a) stated, information can be obtained during the course of an audit from third parties to verify the taxpayer's income, for example: Financial institutions and public companies information on interest and dividends matched with what taxpayers report in their tax return, information from Government regarding social benefit payments, and employer information concerning salary and wages paid and tax deducted, both for income and non-monetary benefits.

Audit Workforce Capabilities

As OECD (2006a) stated, revenue bodies 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, exams, and educational requirements to ensure and build capability. The model is used as a basis for managing performance, training, staff development, and recruitment across the audit function.

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

According to OECD (2006a) stated, 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 taxpayer's books and records. Hence, 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 (OECD, 2006b).

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 (OECD, 2006b).

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 (OECD, 2006b)

Competency Assessment

It is important for tax administrations to assess and evaluate the competencies of their staff. The direct manager commonly performs competency assessments during recruitment and promotional processes on an annual or semiannual basis for those staff maintaining current positions (OECD, 2006a). Assessments 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).

Assessment methods used include knowledge-based assessments administered online, formal tests and exams to attain a recognized qualification, peer reviews, a tutor to support and assess newly hired staff, and technical evaluations. The measurement and tracking process of the audit workforce provides management with tangible information of the resource and capability mix or trends across the whole audit workforce, providing valuable data for workforce and succession planning. Many revenue bodies indirectly attain a measure of the competency level of their audit workforce by considering: key performance indicators and results, quality assurance results, client or professionalism survey results, quantity of audits performed, training course and other assessment results (OECD, 2006a).

Further, tax administrations may record the skills (including qualifications) and areas of expertise of individual staff. Using and sharing this information across the organization, tax administrations may better allocate work and identify specialist resources or skills (OECD, 2006b).

Improving Competency and Addressing Capability Gaps

Responsibility and accountability for improving auditors, audit managers and audit directors commonly lies with the staff member in question and their direct manager and/or local management team. 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 (OECD, 2006a).

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/or placement programs, career paths, knowledge sharing initiatives and knowledge tests. Capability gaps are typically gathered from various sources including performance system interviews and appraisals, client professionalism, satisfaction and other similar surveys, and training program evaluations (OECD, 2006b).

Tax administrations must recruit audit staff specifically to carry out tax audits. To attract the right staff in increasingly competitive and skilled labor markets, effective recruitment policies are essential. Audit staff is generally recruited either fully trained so they can be effective in post very quickly, or selected because they have strong potential to become auditors through in-house training and education. A minimum standard of specific academic qualifications, such as a diploma or degree or being a chartered accountant, is often required for some grades of audit staff. There is also an assessment of applicants against competencies relevant to their audit work in the areas of problem solving, analytical skills, interpersonal skills, self-management, decision making and oral and written communications. Further, all auditors required to have computer skills with other more specialized skills, such as legal experience or specific types of tax knowledge being needed for posts that are more technical (OECD, 2006a).

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 (OECD. 2006a).

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 (OECD, 2006a).

According to IESBA (2012) Code of Ethics, a professional accountant shall comply with the following fundamental principles:

a) ***Integrity*** – to be straightforward and honest in all professional and business relationships.

b) ***Objectivity*** – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.

c) ***Professional Competence and Due Care*** – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.

d) ***Confidentiality*** – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.

e) ***Professional Behavior*** – to comply with relevant laws and regulations and avoid any action that discredits the profession.

2.7. Challenges and Problems of Tax Audit

Over the past decades many developing countries have implemented comprehensive reforms of their tax administrations in order to increase revenue and curb corruption. The rapid growth in the size and form of business conducted over the internet and other communication networks, has raised a number of concerns for the formulation of tax policy and effectiveness of existing administrative procedures and techniques. These reduce the tax man's ability to check the accuracy of profits reported by taxpayers and narrow the tax base. Adom (1998), mentioned schemes for tax avoidance, irregular flow of resources taxation of the informal sector and the inability to establish the 'tax court'; as challenges to increased revenue collection. Poor performance to tax group is due to problems with taxpayer identification, illiteracy and poor record keeping and sometimes, willful intention of these potential taxpayers to evade tax.

Another challenge was associated with lack of taxpaying culture among taxpayers, which was partly caused by a tax system perceived as unfair. Relative's high rates and a complex and partly incoherent set of rules, especially for customs and corporate taxes resulted in large potential rewards for taxpayers willing to bribe to cut their own tax burden and/or speed up customs clearance of their goods (Fjeldstad, 2006).

While tax laws impose obligations on taxpayers to contribute to government revenues, the actual amount of revenues flowing into the hands of any government depends on the effectiveness of its revenue administration and Tax audit practices (Bird, 2003). Weakness in revenue collections leads to inadequate tax collections. For a number of reasons, efficient tax administration is a major problem in developing countries. Not only do developing governments face an uphill battle in bringing individuals and businesses into the taxation process, but governments face insufficient administrative staff with no skills, high levels of illiteracy among taxpayers and tax collectors, lack of sufficient computer and facilities, and lack of reliable statistical data (Kangave, 2005).

A major constraint in tax administration is the lack of adequate resources to sustain and facilitate the operation of tax authorities. Resources to administer a tax can generally be divided into two categories: human resources and physical resources. Human resources include not only the number of tax officials but also the quality of tax officials. Physical resources cover a wider dimension, ranging from office buildings and office equipment to vehicles and communication systems (Tanzi and Zee, 2000). These are the resources required by the human resources in order to ensure compliance with tax laws.

Due to financial constraints, many tax officials who are hired lack understanding of the tax laws they are administering, and the concepts of accounting that are essential to analyzing returns. The problem of inexperienced and unqualified personnel is worsened by lack of adequate training facilities and opportunities. Most training undertaken in developing countries is general in nature, and certainly does not correspond with the particular reform strategies that are being undertaken by tax authorities. Lack of modern technology, especially computers, to facilitate the taxation process is another impediment to effective tax administration (Bird, 2003).

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

On the other hands Toto (2011) identified Resource and capacity, Inter-agency coordination, Compliance management, Corruption, and Sustained political will as the major challenges of Tax Audit and Tax administration in most developing countries.

Resource and Capacity: Inadequate resources are impacting taxpayer service delivery and adequacy, and appropriateness of compliance interventions. Ensuring appropriate resources to revenue administration is a longstanding battle. Existing resources need to be carefully used to obtain the highest return. Mid-level managerial and technical skills need continuous/sustained improvement. Skills necessary to identify tax gaps, compliance trends and improvements need to be systemically built.

Inter-agency Coordination: Still weak between domestic tax and customs administrations and opportunities are underexploited. Trend analysis by customs and tax managers can lead to development of harmonized compliance models and response strategies. It needs to go beyond just revenue agencies, several government supervisory bodies, financial sector, etc. Experience in many countries suggests that one of the most effective means to improve the equitable and efficient collection of revenue is improve information sharing between agencies. The simple ability to cross reference tax filings across agencies has the potential to more general level, the challenge of tax collection is fundamentally about informational and the ability to draw on multiple information sources to identify taxpayers and their actual tax liability. Thus, being able to draw on information from, among others, all concerned organs and Ministerial Offices holds huge potential for improving tax collection through greater knowledge of the assets and activities of taxpayers. Yet these forms of information sharing remain far too limited, owing to bureaucratic infighting, and an overall absence of top level managers will to bring the assets of high net worth individuals more clearly into the public eye.

Compliance Management: Improvement is required to strengthen the legitimacy of the tax system beyond the fundamentals. Clear strategies required to address the most noncompliant businesses and individuals. Key compliance management strategies, comprising: Understanding the nature of the taxpayer/trader population, identifying key compliance risks and how they arise, Clarity on accountability, and adequate resourcing of compliance actions, and specifying performance indicators and potential corrective actions. No short-cuts to addressing non-compliance, hard routine administration work is required—fundamental.

Corruption: Progress can and should be made in addressing this vice. Critical to understand the causes and ethical dilemmas. Strong institutional measures to address ethical dilemma and misbehavior—code of ethics, internal audit, staff investigations, and prosecution. Simplification and transparency of procedures play a key role in minimizing rent-seeking opportunities - limit contact between taxpayers and tax officials. Firm managerial leadership is crucial. Political decision at the highest level is essential.

Sustained Political Will: Key condition to complement technical capacity: Political commitment must come from the highest levels of the country's leadership and should be consistent, unwavering, and sustainable. Substantial progress where this will has been forthcoming, but minimal where it has not. A holistic approach is essential - gains from administrative improvements can easily be offset by base-narrowing exemptions.

According to OECD (2004a), some challenges of tax audit are relying on caseworker selection. Those can relies on a limited data set with no systematic cross reference to other data available within the administration's system; caseworkers regardless of their experience can miss aspects of noncompliance with which they are non-familiar; those with the knowledge to undertake such screening are usually those with the skills to undertake the substantive intervention. Thus, there is an opportunity cost in asking them to undertake such screening. Modern standards of propriety indicate that there should be a gap between those selecting cases and those functioning cases.

2.8. Empirical Studies

Regarding empirical evidences on Tax Audit the researcher comes across different researches carried out at specify organization and federal levels of the country. The objectives and scopes of study for all of them were not the same. The study conducted by Gebeyehu (2008) was attempted to trace out the basic concepts of tax audit, and analyze the significances and role of tax audit in increasing tax revenue and in strengthening tax administration capacity. The results of the study indicated that, the highest ratio of tax to GDP in Ethiopia was 13 percent, which is registered in 2003/04. Most of the country's revenue is from non-tax sources such as grants. Revenue derived from taxes is dominated by indirect taxes. The study stated that personal income tax does not need critical assessment other than checking whether the amount withhold by the employer is forwarded to the respective tax authority. Moreover, Getaneh (2011) focused on key problems in tax audit operation regarding the appropriateness of audit type used, audit rate, aptness of audit case selection methods, audit examination techniques used, and the experience and capability of audit staff resources at Federal Government level. The result of the study indicates that, tax audit program remains undeveloped with slight range of tax audit activities performed targeting aptly specific risks. In addition to this, low audit coverage, absence of compliance risk-based audit case selection strategy, scarcity of audit resources, and absence of proficient and experienced tax auditors are revealed as major problems in this study.

Furthermore, the focus of the study conducted by Netsanet (2014) was on the Revenue Authority of Hawassa City Administration to examine whether the practice is in conformity with the standards. The study utilized interview and questionnaire to collect data required for the study. However, it has been difficult for the researcher to collect secondary data due to bad documentation of the authority and reluctance of its employees to cooperate with the researcher. The results of the study indicate that, Revenue Authority of Hawassa City Administration extensively use comprehensive types of audit. Due to this the audit coverage of the revenue authority was too low, cases were selected based on associated risk but not used the standard risk identification criteria. The Authority does not perform the audit work in predetermined time. The study concludes that; the revenue authority had not performing tax audit according to acceptable Tax Audit standards.

Besides, a study made by Atisbha (2016) focused on tax audit practice and its challenges at Ethiopian revenue and customs authority with specific reference to large tax payers' office. Its objectives were intended to assess the challenges in the application of tax audit in the large taxpayers; to explore how tax audit is exercised in the reduction of tax avoidance and evasion; and to examine the competency of tax auditors' of Ethiopian revenue and customs authority. The principal finding of this study was that declared income increased significantly more in rational audit strategy group than in the control group.The information concerning the rational audit strategy reduces tax fraud compared to no information. According to this study, tax audits have an indirect deterred effect by which rational taxpayers adapt their behavior to the expected degree of auditing if they are made aware that they may be audited. The study further identified that, tax audit practices in the authority had problems in theapplication of information technology /SIGTAS/ to its maximum capacities, incompetent auditors to tackle tax evasion and avoidance, weak taxpayers' education program which cannot improve the compliance level of taxpayers. all of the studies were attempted to assess Tax Audit focusing on the significance of Tax audit practice in increasing revenue, and issues of Tax audit related to large taxpayersat National level. All of them were not focused on practices and challenges of Tax audit performed at Head Office level of the Region.

They attempted to assess the issues of Tax audit with variable and aspects of increasing revenue, strengthening tax administration capacity, challenges in the application of tax audit in the large taxpayers, reduction of tax avoidance and evasion, ability of tax auditors, and Tax audit operation at Federal and City Administration levels. These showed that, there is a research gap, on the topic of practices and challenges of Tax audit particularly at jimma zone Revenue Authority in Jimma town .In addition, the scopes of the study for all of them were not the same with this study. Therefore, this study is carried-out where such study has not been sufficiently conducted on the area and the study topic.

2.9. Conclusions to the Literature Review and Knowledge Gap

Tax audit practice is a current issue for both developing and developed countries. There is no sufficient theory regarding tax audit activities. In the theoretical review, to the knowledge of the researcher, there is no standard as to the percentage of audit methodologies to be conducted in a given tax authority. In addition, there is no adequate literature regarding the appropriate audit examination techniques to be used for checking the accuracy of tax returns in line with the level of economy and technological advancement, developing countries in particular.

The empirical studies that have been reviewed in the preceding section focused on the different 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.

However, as far as the knowledge of the researcher is concerned, it is possible to conclude that although there have been some studies on tax audit related issues both in developed and developing countries, Ethiopia in particular, the studies did not explore challenges in tax audit thoroughly though some has been said about the practice. Most of those studies had made a little effort to address on issues related to practices, challenges of tax audit, and major issues that focus on competences of tax auditors has not been well elaborated.

Based on these gaps in the literature together with the problems stated in section one of chapter one and in order to attain major objective of the study, the following research questions would be addressed: How tax audit are practice in Jimma zone Revenue Authority 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 major challenges of tax audit practices in Jimma zone Revenue Authority will be raised.

With this end, the next chapter discusses research methodology and specific research methods that are applied for the study along with proper justification for the selection of appropriate samples and data collection instruments.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGIES

3.1. Introduction

This chapter presented the research methodology to be employed for data gathering as well as the relevant statistical analytical tools that employed for analyzing the survey results. The purpose of this section is to provide a description of research design, the study population, sample size and sampling techniques, data sources and data collection instruments and analysis.

3.2. Research Design

Research approach could be qualitative, quantitative or mixed depending on the nature of the study. Qualitative research approach explores attitudes, behaviors and experiences through methods such as in-depth interview and/or focus group discussion (Dawson 2002). It uses narrative, phenomenological, ethnographies, grounded theory and case studies. The researcher collects open-ended emerging data with the primary intent of developing themes from the data (Creswell 2007). Apart from this, it facilitates responses, and provides data in-depth with leading respondents (Dawson 2002). It is capable to generate a theory by addressing issues which cannot be quantified. However, this approach has been criticized for lack of scientific rigor, small samples, subjective and nonreplicable efforts. The researcher's interference in the research process is very high that results bias due to small sample size and uniqueness of the research setting. Sometimes, it is also very difficult to make generalization to the whole population.

On the other hands, quantitative research generates statistical data through the use of large scale survey research, using methods such as close-ended questionnaires and/or structured interviews (Dawson, 2002). Moreover, Creswell (2009) noted that quantitative approach employs strategies of inquiry such as experiments and surveys, and collect data on predetermined instruments that yield numeric data that can be analyzed using statistical procedures. It is a means for testing objective theories through examining the relationship among variables. It is advantageous as it, procedurally, follow scientific approach, tests reliability and validity of the instrument. It minimizes bias from the researcher's influence and employs large sample size. Though, the results can be believed on and the results can be generalized to larger population; it is not capable to address issues which cannot be quantified. So that, it may has limited scope.

Mixed approach is the blend of both qualitative and quantitative approaches. It employs strategies of inquiry that involves collecting data either simultaneously or sequentially to best understand the research problem. The data collection involves gathering both numeric information and text information (Creswell, 2009). Mixed approach includes the use of theory deductively in theory testing and verification, or inductively in an emerging theory or pattern. Therefore, the combination provides an expanded understanding of the research problems. It utilizes the strengths and overcomes the weaknesses of the two continuum approaches. However, incorporating both designs requires a great level of effort from the researcher such as need for extensive data collection.

In order to achieve the research questions stated in the previous section, the researcher used both qualitative and quantitative in collecting and analyzing data as discussed in the following section. Since the purpose of this study is to investigate practice and challenges of tax audit in Jimma Zone Revenue Authority, the selected mixed research designed which allowed the implementation of g qualitative and quantitative data and research methods (Kothari, 2004) to answer multiple research questions in the study.

Using mixed approach is more than simply collecting and analyzing both kinds of data; it involves the use of both approaches in tandem so that the overall strength of the study is greater than either qualitative or quantitative research. In mixed approach, the researcher bases the inquiry on the assumption that collecting diverse types of data best provides an understanding of a research problem.

.

3.2.1.1. Survey Design

Survey design is reach 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). Typical, survey gather data at a particular point in time with the intention of describing the nature of existing conditions, or identifying standards agents which existing conditions can be compared, or determining the relationships existed between specific events; surveys are useful to gather information and data on attitudes, preferences beliefs, predictions, behavior and experiences (cohen 2000).

Survey research has its own strengths and weakness. The strengths of survey research include; highly flexible, possibly cover a wide range of research questions, describe an existing situation, easy to guarantee respondents'' anonymity (for example, questionnaires may lead to more candid answers). Easier to generalize findings, and efficient in gathering large amounts of data at reasonably low cost and effort .

3.2.1.3 Survey Instruments

Survey instruments include self-administered questionnaire, structured interview and structured observations (creswell2009). The study uses questionnaire, which is a widely used and useful instrument for collecting survey information. Questionnaire as a tool for data collection has its own advantages and limitations. The advantages found from the literature includes that thedata collected through the use of questionnaire are efficient, reliable because of anonymous, honest, economical (in terms of many and time), quick (even possibly mailed), consistent (little scope for bias), offers the possibly of standardizing and comparing scales, and enables the anonymity of the data sources to be preserved. The researcher can select several types of questionnaire, from highly structured (closed ended) to unstructured (open ended). Structured questionnaire is appropriate to gather straightforward and uncomplicated information. It is easy to classify and quantify, require less time and effort, and ingenuity to answer. Nevertheless ,it is tedious and time consuming to prepare questions. The researcher also may not have a full range of responses to prepare close ended questionnaire . In addition , the respondents have no chances to express their own views, and to quality, develop or clarify their own answers. On the other hand, unstructured questionnaire gives a greater in sight and understanding of the topic studied. However, it may be difficult to classify and quantify and must be carefully interpreted. To mitigate the limitation of both types of questionnaire, semi-structured questionnaire is a powerful tool (cohen etal., 2000). Dawson (2002) also stated that researchers tend to use a combination of both open and closed questions .Such questionnaires begin with a series of closed questions, with boxes to tick or rank, and then finish with a section of open questions for more detailed response, As result, the researcher apply and distributed for 82 auditors of jimma revenue authority, for survey data collection.

3.2.1.4 Tools of Data Collection

Questionnaires

This method of data collection is used to collect the necessary information from the sample respondents. To do this, both open-ended and closed ended questionnaires were prepared and distributed to both employees and leaders of the organization.. Questionnaires are prepared in English language . However, if there is any confusion in the question during the data collection, the research gave more explanation to the question in person.

Interviews

To extract as much information as possible that helps the researcher in addressing the specific objectives of the study, structured interview carried out through face to face contact with tax audit team leaders and top level management of the office so that to address the problem of the study.

3.2.1.5. Sample Design and Sample Size

According the definition by Eboh (2009) population is all items in any field of enquiry or study. It is any group the researcher has focused his attention to and has been chosen as the approved subject of the study. Thus, the population of this study was auditors, and top level of management of Jimma Zone Revenue Authority. There is a rule of thumb that says when the number of the target population of the given study area is less than one hundred, it is more appropriate to take the whole population as a sample size for the study (yount ,2006). In the current case since the number of auditors and top level managements are less than one hundred, this study considered all auditors as its respondents.

3.2.1.6. The sample size

The sample size had been determined based on the consideration of the target group involved in all section of the organization employee of tax audit staff member and some management staff. Whith the census survey the total population of the organization 82 employees selected from tax audit department staff officer of Jimma town revenue authority and Jimma zone revenue authority office. Because of number of staff is not large the researcher will taken all tax audit staff member and some management member by census approach. Using of these census approach the most important selecting method to get real information. Because of those selected groups are more familiar with tax audit and they are more knowledge about that information.

Furthermore, Tax Auditors of the Authority and the top level management of Jimma zone will be selected as a sample using purposive sampling techniques to respond the questionnaire and interview questions respectively. Those groups are selected purposively for this study as sample respondents; because they are small in number and their positions are important in describing the practices and challenges of tax audit in Jimma. This will help the researcher to get significant information from them for the study.

3.2.1.7. Methods of Quantitative Data Analysis

The data collected for this study was had been checked from collection to data entry before they are ready for analysis. At the beginning the data collected from all sources were be checked and organized with respect to basic research questions and objectives of the study. .

The quantitative data would tabulate and processed with the help of Statistical Package for Social Sciences (SPSS V-20). That enables users to analyze and manage data collected by researcher and present the and to present outcomes of the result .It is preferred to use in this study, since it has the capacity and flexibility to process quantitative data and generates an ultimate range of simple and sophisticated statistical results

3.2.1.8. Qualitative Approach of the Study

Qualitative research is concerned with qualitative phenomenon, i.e., phenomena relating to or involving quality or kind. This type of research aims at discovering the underlying motives and desires using in depth interviews for the purpose (Kothari, 2004). It is especially important in the behavioral sciences where the aim is to discover the underlying motives of human behavior.

Through such research we can analyze the various factors which motivate people to behave in a particular manner or which make people like or dislike a particular thing.

In a qualitative research, the researcher will describe a research problem that can best be understood by exploring a concept or phenomenon. It was usually suggested that, qualitative research is exploratory, and researchers use it to explore a topic when the variables and theory base are unknown. The major characteristics of a qualitative research problem are: (a) the concept is "immature" due to a conspicuous lack of theory and previous research; (b) a notion that the available theory may be inaccurate, inappropriate, incorrect, or biased; (c) a need exists to explore and describe the phenomena and to develop theory; or (d) the nature of the phenomenon may not be suited to quantitative measures (Creswell, 2009)..

3.2.1.9. Interview

Interview was used to gather data about the thoughts, outlook and beliefs that the interviewees had about tax audit practice and challenges in the Authority. Thus, considering the advantages of its flexibility in which new questions could be forwarded during the interview session, semi-structured questions had been prepared and used in this study, structured interview carried out through face to face contact with top level management of jimma zone revenue authority so that to address the problem of the study.

Method of Qualitative Data Analysis

Qualitative research used to describe or explain what is happening whith in a study area. Qualitative method mainly includes three kinds of data collection : in depth interview , direct observation, and written documents , for this study ,the data's are collected through in depth interview and open ended question

Table 3.2: Summary of the Link between Research Questions and Data Sources

No	Research Questions	Source of Data	Data Collection Methods
1	How tax audit are practice in Jimma zone Revenue Authority with respect to: the types of tax audit frequently performed; tax audit case selection methods used; audit	Tax auditor and Top level manager	Questionnaire and Interview

	techniques applied; frequency of audit performed; and the adequacy of tax audit		
2	What is the extent of tax auditors' proficiency and competency?	Tax auditor and Official documents	Questionnaire and Document analysis
3	What are the major challenges of tax audit practices in Jimma zone Revenue Authority	Tax auditor and Top level manager	Questionnaire and Interview

CHAPTER FOUR

DATA ANALYSIS, RESULT AND DISCUSS

4.1 Survey Results

The questionnaires were distributed to all auditors. 82 questionnaires were prepared and distributed and out of which 76.83% were completely filled and retuned. After data processing and Analysis, then the results of the study are discussed by using the findings obtained from different sources results were presented and discussed in this chapter.. The discussion attempts to accomplish the objectives of the study and answer the research questions

4.2. Background information of respondents

4.2.1. Gender Information

Out of the total respondents, 66.7 %were males and 33% were females. This implies that male were highly involved in the study. However there is no biased in the survey instrument related to gender and it is the composition of the gender in the branch that makes males participation were high.

Table 4.1. Gender distribution of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	42	66.7	66.7	66.7

	Female	21	33.3	33.3	100.0
	Total	63	100.0	100.0	

Source: field survey, 2020 and own computation

4.2.2. Age of the respondents

The majority of the respondents 42.9% were under the age category of between 31-40years, and the second frequent age categories 33.3% were 26-30 years and 23.8% of respondent were in age category 41-50. The age bracket showed that the respondents were consisting of varies group which enable the researcher to get different respondents were same topic. Moreover, the survey includes that, the administration has been performed by the young and energetic group of audit staff.

Table 4.2 Age distribution of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	26-30 years	21	33.3	33.3	33.3
	31-40 years	27	42.9	42.9	76.2
	41-50 years	15	23.8	23.8	100.0
	Total	63	100.0	100.0	

Source: field survey, 2020 and own computation

4.2.3. Educational level of the respondents

Regarding educational level 65.1% and 15.9 % of respondents have BSC/BA and MSC/MA degree respectively while the remainig,19% of Tax auditors attended only to level of Diploma.

Table 4.3 Education level and field specialization of the respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	10	15.9	15.9	15.9
	BSC/BA	41	65.1	65.1	81.0
	MSC/MA and above	12	19.0	19.0	100.0
	Total	63	100.0	100.0	

Source: field survey, 2020 and own computation

4.2.4 The field of specialization of respondents

Regarding field of specialization 49.2% of respondents were Accounting and finance, 20.6%of respondents were economics, 23.8% of respondents were management and 6.3were other fields the majority of respondents studied accounting and finance followed by management and economics fields. And work experience of as an auditors above two years and additional the field of specialization of the tax auditors other field of study are some respondents agricultural economics and MBA. And so that educational level and work experience of tax auditors is better to tax audit.

Table 4.4 field of specialization of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Accounting and finance	31	49.2	49.2	49.2
	Economics	13	20.6	20.6	69.8
	Management	15	23.8	23.8	93.7
	others specify	4	6.3	6.3	100.0
	Total	63	100.0	100.0	

Source: field survey, 2020 and own computation

4.2. 5.Types of tax audit performed

Field Audit is a detailed examination of taxpayer's books and records to determine whether the correct amounts were reported on the tax returns. The auditor may also obtain information from other sources such as banks, creditors and suppliers, to confirm items on returns. A field audit usually includes one or more of the following taxes: income, franchise, sales and use, withholding, and excise taxes

.**Desk audit** or verification: Desk or verification audit usually carried out annually and primarily based on: (1) a review of income tax and VAT returns, or basic ratios comparing with previous periods or other taxpayers in similar industries, and (2) the crosschecking of information included in the taxpayer files.

Comprehensive or full audit:

All cases where serious underreporting or evasion has been detected under any of other audits should be forwarded to a unit responsible for undertaking comprehensive audits of all tax liabilities. It typically entails a comprehensive examination of all information relevant to the calculation of a taxpayer's tax liability for a given period

Issue -oriented audit:

It should focus on a single tax type and covers no more than one or two reporting periods. Single-issue audits are confined to one item of potential noncompliance that may be apparent from examination of a taxpayer's return

Advisory audits:

It involves the auditor's visit to newly established businesses. They advise them regarding tax types, filing of returns, payment of amounts due, record keeping to be maintained, refund claims, risk of audit and sanctions of noncompliance

Registration check:

Registration check is form of unannounced visits to taxpayer's premises for new enterprises (mainly small and medium sized) to detect businesses operating outside the tax system.

The survey results showed that in the jimma revenue authority exhaustily conducted compressive audit 55.6%,field audit 19%,desk audit and registration check audit were 11.1% and issue audit and advisory audit were 1.6%. from this we can generalize that the jimma zone revenue authority conducted compirancive audit and jimma zone revenue authority should focus other type of audit.

Table 4.5 frequent types of tax audit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	desk audit	7	11.1	11.1	11.1
	field audit	12	19.0	19.0	30.2
	compressive audit	35	55.6	55.6	85.7
	issue audit	1	1.6	1.6	87.3
	advisory audit	1	1.6	1.6	88.9
	registration audit	7	11.1	11.1	100.0
	Total	63	100.0	100.0	

4.2.6 The Performance of Tax Auditors complete cases on average per month

The below table showed that, tax auditor responses concerning audit performed by tax auditors. As it is clearly indicated on below table, 81%of tax auditors reported that an individual desk auditor completes less than 4 cases on average per month The survey respondents further stated that most tax auditor conduct their work less than the standard. The standard number one cases are 7days or one week and on average an individual auditors as expected to complete in a month were 4 (four) cases the researcher got from the interview with top level management .

Table 4.6 Performance of Tax Auditors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 4 cases	51	81.0	81.0	81.0
	4 to 6 cases	8	12.7	12.7	93.7
	20 to 30 cases	4	6.3	6.3	100.0
	Total	63	100.0	100.0	

Source: field survey, 2020 and own computation

4.2.7. Tax auditors in jimma zone revenue authority repeatedly audit the same tax payer

Regarding audit frequency as show in the below table out 63 respondents 45(71.4) of auditor stated that not at all similar tax payer, 12(19) of auditor stated that most of the most and 6(9.5) of auditor stated that sometimes similar tax payer .

Table 4.7 tax auditors repeatedly audit the same tax payer

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	not at all	45	71.4	71.4	71.4
	some times	6	9.5	9.5	81.0
	most of the time	12	19.0	19.0	100.0
	Total	63	100.0	100.0	

Source: field survey, 2020 and own computation

4.2.8. the main activities that tax auditors, investigators and assessor expected

The survey result showed that the main activities of tax auditors and investigators in jimma revenue authority is detecting noncompliance behavior of individual taxpayer 50.8% of respondent ,gather information the health of the tax system 12.7% ,educating taxpayers 25.4% and interpreting complex tax rules and regulations for taxpayers 11.1%of respondents.

Table 4.8 Main activities of auditors and investigators during tax audit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	detecting non compliances behavior of individual taxpayer	32	50.8	50.8	50.8
	gather information on the health of the tax system including compliance behavior	8	12.7	12.7	63.5
	Educating taxpayer	16	25.4	25.4	88.9
	interpreting complex tax rules and regulations for taxpayers	7	11.1	11.1	100.0
	Total	63	100.0	100.0	

Source: field survey, 2020 and own computation

4.2.9 The tax audit performance

The survey result of tax audit performances

Regarding tax audit as show below table 50.8% of respondent efficient tax audit performance,30.2% of medium tax audit performance and 19%of respondent weak tax audit performance.

4.9 the tax audit performance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Efficient	32	50.8	50.8	50.8
	Medium	19	30.2	30.2	81.0
	Weak	12	19.0	19.0	100.0
	Total	63	100.0	100.0	

Source: field survey, 2020 and own computation

4.2.10. The taxpayers cooperate to give information for tax auditor /assessor

The taxpayer's cooperation to give enough information for tax auditors and assessors, below table show that taxpayers are not cooperate to give enough information regarding their business for tax auditoror assessors. 81%of respondents tax payer sometimes were not cooperative to give sufficient information for tax auditors and assessor. And small portion of respondents replied that taxpayer were cooperating with tax auditor and assessors. And 12.7%of respondents replied that taxpayers sometimes gives information to tax auditors and assessors , 6.3% of respondents replied that usually gives information to tax auditors and assessors. In general as the below table the cooperation of taxpayers with tax auditors as well as tax assessors was low. Taxpayers were not fully cooperating for effective tax admistration system. they are not given enough information for tax authority .

Table 4.10 taxpayers cooperate to give information for tax auditor /assessor

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	not at all	51	81.0	81.0	81.0
	sometimes	8	12.7	12.7	93.7
	Usually	4	6.3	6.3	100.0
	Total	63	100.0	100.0	

Source: field survey, 2020 and own computation

4.2. 11 . The tax auditors and investigators have good access to information held by taxpayers

As 52.4% of survey respondents replied, auditors have good access to information by taxpayer and other strongly disagree , 20.6% of respondents replied auditors have good access to information by tax payer and others disagree and 11.1%,7.9% were respectively
Neutral, agree and strongly agree. Respondents respond that there I no good access of information held by the taxpayers and others for auditors. Furthermore in depth interview with the tax audit section lead. Taxpayers do not cooperate to give essential information necessary for tax auditors.

Table 4.11. tax auditors and investigators have good access to information held by the taxpayers and others

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	33	52.4	52.4	52.4
	Disagree	13	20.6	20.6	73.0
	Neutral	7	11.1	11.1	84.1
	Agree	5	7.9	7.9	92.1
	strongly agree	5	7.9	7.9	100.0
	Total	63	100.0	100.0	

Source: field survey, 2020 and own computation

4.2.12 tax payer's cooperation to give essential information for an auditor

The survey result of the below table the selection is based on taxpayer's cooperation to give essential information necessary for performing an audit.as a result 61.9% of respondents were strongly disagree, 19.5% of respondent neutral, and 9.5 % of respondent respectively disagree and strongly agree. As the researcher interviewees the response of the managers the taxpayer's cooperation to give good information an audit were challenged.

Table 4.12. taxpayers cooperation to give essential information an audit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	39	61.9	61.9	61.9
	Disagree	6	9.5	9.5	9.5
	Neutral	12	19.0	19.0	19.5
	strongly agree	6	9.5	9.5	100.0
	Total	63	100.0	100.0	

Source: field survey, 2020 and own computation

4.2.13 Taxpayers are selected based on their associated compliance

The survey result of selected based on their associated compliance risk, were
74.6% of respondent disagree, 12.7% of respondents were and 6.3% of respondents were respectively agree and strongly disagree. So we can say that tax payer are not selected based on their associated compliance.

Table 4.13. taxpayers are selected based on their associated compliance risk

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	8	12.7	12.7	12.7
	Disagree	47	74.6	74.6	87.3
	Agree	4	6.3	6.3	93.7
	strongly agree	4	6.3	6.3	100.0
	Total	63	100.0	100.0	

Source: field survey, 2020 and own computation

4.2.14 The case selection is based on the availability of resources for tax audit

In the below table the survey result were 25.4% of the respondents were strongly disagree, 34.9% of respondents were disagree, 14.3% of respondents were neutral, 19% of respondents were agree and 6.3% strongly agree.

Table 4.14. case selection is based on the availability of resource for tax audit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	16	25.4	25.4	25.4
	Disagree	22	34.9	34.9	60.3
	Neutral	9	14.3	14.3	74.6
	Agree	12	19.0	19.0	93.7
	Strongly agree	4	6.3	6.3	100.0

	Total	63	100.0	100.0	

Source: field survey, 2020 and own computation

4.2. Challenge to the practices of tax audit in Jimma zone revenue authority

In this part responses of the respondents regarding the second question ; that is the challenges of tax audit practices at Jimma Zone revenue Authority were presented

4.2.1 Limited capacity of management and leadership

The survey result in the following table were five point scale, 5, very sever challenge 4,sever challenge 3, moderate challenge 2, minor challenge and 1,inconsiderable challenge. The survey result were 33.3% of respondents were respectively sever challenges and very sever challenges, and 11.1%of respondents were inconsiderable challenges, minor challenges and moderate challenges.

Table 4.15 . limited capacity of management and leadership

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	inconsiderable challenge	7	11.1	11.1	11.1
	minor challenge	7	11.1	11.1	22.2
	moderate challenge	7	11.1	11.1	33.3
	sever challenge	21	33.3	33.3	66.7
	very sever challenge	21	33.3	33.3	100.0
	Total	63	100.0	100.0	

Source: field survey, 2020 and own computation

4.2. 2 The commitment of leaders at Jimma Zone revenue authority on tax audit related issues

The survey result in the below table were the commitment of leaders at Jimma revenue authority on tax audit related issues was some challenges, the 30.2% of the respondents were very sever challenges ,27% of the respondents were moderate challenges 25.4% of respondents were sever challenges and 9.5%,7.9%of the respondents were minor and inconsiderable challenges.

Table 4.16 The commitment of leaders at Jimma Revenue authority on tax audit related issues

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	inconsiderable challenge	5	7.9	7.9	7.9
	minor challenge	6	9.5	9.5	17.5
	m challenge moderate	17	27.0	27.0	44.4
	sever challenge	16	25.4	25.4	69.8
	very sever challenge	19	30.2	30.2	100.0
	Total	63	100.0	100.0	

Source: field survey, 2020 and own computation

3. The Adequacy of Resources and facilities required for tax audit

The survey result in below table resource and required for tax audit were 47.6% of the respondents very sever challenges ,27.%of respondents were moderate challenges and 25.4% of respondents were sever challenges.

Table 3. resource and facilities required for tax audit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	moderate challenge	17	27.0	27.0	27.0
	sever challenge	16	25.4	25.4	52.4
	Verysever challenge	30	47.6	47.6	100.0
	Total	63	100.0	100.0	

Source: field survey, 2020 and own computation

CHAPTER FIVE

5 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 conclusion

Types of tax audit performed: The types of tax audit were performed in Jimma zone revenue authority was compressive audit But for the future the Jimma revenue authority must use the other types of audit for example refund audit issue-oriented audit ,and fraud investigation audit The major challenges of tax audit practices in Jimma Revenue Authority In this question the researcher get the results ,the limited capacity of management and leadership sever challenges and very sever challenges and the commitment of leaders at JZRAon tax audit related issues were moderate challenge ,sever challenges and very sever challenges. And the other challenges resources and facilitates for tax auditors, very sever challenges ,sever and moderate challenges .

5.2. Conclusion

The summary major findings has to contains answer to each research questions in the following

The objective of the is research was The Practice and challenges of tax revenue audit in Jimma Zone Revenue Authority .the study used questionnaires prepared for tax auditors and interviews to tax audit processor owner (tax audit head) and document reviews as source of data The response obtained from survey of tax audit department staffs were tabulated and interpreting by using spss software

- The types of tax audit were performed was field audit , compressive audit , issue audit , advisory audit and registration audit. But for the future the Jimma revenue authority we must use the other types of audit.
- The limited capacity of management and leadership
- the taxpayers weak understanding of tax related rules and regulations.
- .the communication gap between the revenue authority and taxpayer.
- The standard number of frame work was not enough to complete in seven days.

5.3 The recommendation

Based on the findings of the study, the following recommendations and further research areas are identified.

From the discussion and conclusion the researcher found that tax auditors need facilities the work environment and good office arrangements for tax audit, the taxpayers weak understanding of tax related rules and regulations by taxpayers and the lower level of the commitment and leaders at some level of Jimma Zone revenue Authority on tax audit related issues and the number of tax auditor was small , the time to give the complex and small were equal.

- The standard time frame on the manual was not sufficient to perform and conclude complex cases. Individual auditor might not properly detect noncompliance due to time scarcity and the required audit quality might not be achieved; whereas auditors those expected to complete simple even before the elapse of stated period and might consume working time improperly so that feasibly audit coverage might be reduced.so The authority should revise the time frame allocation and give more time for complex cases.

- The Jimma Zone revenue authority should supply sufficient necessary audit materials for auditors to facilitate their work and provide suitable and free work environment.
- The primary objective of tax audit in JZRA should be detection of compliance risk and increase compliance taxpayers and educate taxpayers rather than to access and collect additional revenue,which should be the end goal of the objective.
- The management of JZRA should increase the number of tax auditor .
- To improve the compliance and audit coverage, in addition to comprehensive audit the office should due attention to conduct other types audit.

Bibliography

2006b, O. (2006). Strengthening Tax Audit Capabilities. Auditor Workforce Management-Survey Findings and Observations, Information note, September 2006, Forum on Tax Administration's Compliance Sub-group.

Barreca D . S. Ramachandran. (2004). Improving tax administration with data mining, Executive Report,. TCWP-0504, Elite Analytics, LLC, available at <ftp://hqftp1.spss.com/pub/web/wp/TCWPlr.pdf>, accessed on February 2017.

Barreca, D. a. (2004). Improving tax administration with data mining, Executive Report,.

Baurer Lewis I. (2005). Tax Administrations and Small and Medium Enterprises in Developing. World Bank.

Biber E. (2010). Revenue Administration. Taxpayer Audit Development of Effective Plans, Technical Notes and Manuals, IMF, Fiscal Affairs Department, available at, <http://www.imf.org/external/pubs/ft/tnm/2010/tnm1003.pdf>, accessed on March 2017.

Bird Richard M. (2003). Administrative Dimensions of Tax Reform. International Tax Program Paper 0302, online: University of Toronto < http://www.rotman.utoronto.ca/iib>.

Cohen Louis Lawrence Manion Keith Morrison. (2000). Research Methods in Education. Rutledge Flamer 11 New Fetter Lane, London EC4P 4EE, UK.

CreswellJohn. (2009). Research design. A Qualitative, Quantitative, and Mixed Methods Approaches (3rd Ed). Los Angeles: SAGE Publications, Inc.

Dawson C. (2002). Practical Research Methods. A user-friendly guide to mastering research techniques and projects, Oxford OX4 1RE, UK: How To Books Ltd,.

Ebrill L M Keen J. Bodin and V. Summers. (2001). the Modern VAT, IMF, Washington DC.

Fjeldstad O. (2006). Corruption in tax administration. Lessons from institutional reforms in Uganda. International Handbook on the Economics of Corruption, Edward Elgar Press.

Gebeyehu M. (2008). Tax audit practice and its significance in increasing revenue in Ethiopia. the case of Addis Ababa city administration.

Getaneh M. (2011). Tax audit practice in Ethiopia: the case of the federal government. Addis Ababa University, Ethiopia. Retrieved on December 20, 2016 fromhttp://etd.aau.edu.et/ds pace/bitstream/123456789/3165/1/Getaneh%20 Mihret.pdf.

Grandcolas C. (2005, February 2017). Management of the VAT: Improving the Level of Compliance using. Retrieved from Lessons for the Pacific Islands Countries", 15th Tax Conference,.

Gupta M V Nagadevara. (n.d.). Audit Selection Strategy for Improving Tax Compliance. Application of Data Mining Techniques‟, available, at, <http://www.csisigegov. org/1/39_354.pdf>, accessed on February 2017.

Harrison G and R Krelove. (2005). VAT refunds. Washington DC:: A review of country experience, IMF Working Paper No.05/218,.

Kangave J. (2005). Improving Tax Administration. A Case Study of the Uganda Revenue Authority, Journal of Africa Law, 3(49), 145-176.

Keen M and S. (2007). VAT Fraud and Evasion. UK: accessed on June 2017.

Kitillya H M. (n.d.). 2011. Tax Administration Reforms in Tanzania, Experience and Challenges. Washington D.C: IMF - Fiscal Affairs Departmen.

Kothari C. (2004). Research Methodology. Method and Techniques (2nd Ed.). New Delhi: New Age International PL td. publishers.

M, G. (2011). Tax audit practice in Ethiopia: the case of the federal government. Addis Ababa University, Ethiopia. Retrieved on December 20, 2016 fromhttp://etd.aau.edu.et/ds pace/bitstream/123456789/3165/1/Getaneh%20 Mihret.pdf.

Milack J. (2017). Audit Program Planning and Management. available at, <http://www.accenture.com/NR/rdonlyres/52149C62-F449-47DB-9F4A-A11CA 70D209D/0/tax1_wp_milack2.pdf>,.

Netsanet Bibisso. (2014). Assessment of tax audit practice: the case of Hawassa city Administration. Hawassa University.

OECD. (2004). Compliance Risk Management. Audit Case Selection Method, Information Notes.

OECD. (2004). Compliance Risk Management. Audit Case Selection Method, Information.

OECD. (2004). Compliance Risk Management. Audit Case Selection Method, Information Notes, October 2004, Tax Administration Compliance Sub-group, available at,<http://www.oecd.org/dataoecd/44/36/33818568.pdf>, accessed on March 2017.

OECD. (2004). Compliance Risk Management. Audit Case Selection Method, Information Notes.

OECD. (2006). Strengthening Tax Audit Capabilities. Auditor Workforce Management-Survey Findings and Observations, Information note, September 2006, Forum on Tax Administration's Compliance Sub-group.

OECD. (2006). Strengthening Tax Audit Capabilities. General Principles and Approaches, Information note, October 2006, Tax Administration Compliance Sub-group, available at <http://www.oecd.org/dataoecd/46/18/37589900.pdf>.

OECD. (2006). Strengthening Tax Audit Capabilities. General Principles and Approaches, Information note, October 2006, Tax Administration Compliance Sub-group,.

Scott David Morrison Marlene. (2006). Key Ideas in Research. London: Continuum International Publishing Group.

Smith, K. a. (2007). VAT Fraud and Evasion:. <http://www.imf.org/external/pubs/ft/wp/2007/wp0731.pdf>,, WP/07/31.

Tait AA. (1988). Value Added Tax. International Practice and Problems.

Thomson R. (2008). Strengthening Risk Management and Audit Strategies to Improve Compliance. Paper presented at Caribbean Organization of Tax Administration (COTA) General Assembly,, July 2008, CARTAC, Belize, available at, <www.cartac.org/ COTA/ Paper/Strengthening/Risk/Management/Final.pdf>, accessed on March 2016.

Vellutini Charles. (2010). Risk Based Tax Audit Case Selection Methods. ECOPA, Washington, USA, available, at <http://www.ecopa.com/attachments/ accessed on January 2017.

JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

QUESTIONNAIRE TO BE FILLED BY TAX AUDITORS

Dear respondents; the purpose of this questionnaire is to gather data to assess “practice and challenges Tax Audit in jimma zone Revenue Authority. The findings this research is used for the partial fulfillment of Masters of Accounting and Finance. Therefore, the information gathered through this questionnaire will be used for academic purpose only. Your answer and suggestion will be strictly kept confidential and your personal and organization’s identity will not be revealed. I therefore, kindly request you to correctly respond the questions included in this questionnaire.

Do not write your name on the questioner

Dear participant

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.

Part –I : Background information

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

Gender: 1.Male □ 2. Female □ 2.

Age: 1. Less than 25 years □ 2. 26-30 years □ 3. 31-40 years □ 4. Above 50 years □

Education : 1. Certificate___ □ 2. Diploma___ □ 3.BSc/BA □ 4. MSc/MA and above

4. Field of specialization: 1. Accounting & finance □ 2. Economics □ 3. Management □

4. Others, Please specify ___________________________

5.How long did you work as an auditor (experience)? ------------------

6. Howlong you worked in tax collection in revenue office? ____________________________

7. Did You have previous work experience in other organization, prior to joining jimma revenue authority?

1. Yes. □ 2.NO. □

Part - II Question regarding Tax audit practice

6. What types of Audit are usually performed?

1. Desk Audit □ 3. Comprehensive audit

2. Field Audit □ 4. Issue audit □

5. Advisory audit □ 6. Registration Audit

7. Refund Audit □ 8. Fraud investigation □ 9. Other □

7. How many audit cases on average an individual (one) auditor has expected to complete within a month?

1. Less than 10 cases □ 3. 20 to 30 cases □

2.10 to 20 cases □ 4. Above 30 cases □

8. How many audit cases on average an individual field auditor has expected to complete in a month?

1. Less than 4 cases □ 3. 7 to 10 cases □

2. 4 to 6 cases □ 4. Above 10 cases □

9. Tax auditors in jimma town at jimma zone revenue authority repeatedly audit the same tax payer.

1. Not at all □ 2. Some times □ 3.Most of the time□ 4. Always □

10. Why a tax audit is initiated on the particular tax payers ?

When taxpayers reported tax returns less than previous period return □

When serious tax fraud case is found □

When taxpayers have large tax potential □

When they reporting no operation □

When taxpayers have large tax potential □

When tax refund cases happen □

When reporting loss consequentively □

8. Other please specify ---

11. What are the main activities that tax auditors, investigators and assessors expected to perform during an audit period (multiple answers are possible)?

1. Detecting noncompliance behavior of individual taxpayer □

2. Gather information on the health of the tax system including compliance behavior □

3. Educating taxpayer's □

4. Interpreting complex tax rules and regulations for taxpayers

5.Other____

13. How do you evaluate the tax audit performance?

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

14 . How do you evaluate the performance of tax audit in enforcing illegal trader?

1. Excellent □ 2. Good □ 3. Fair □ 4. Poor

15. Is there key performance indicator for Tax audit?

1. Yes □ 2. No □

16. How tax auditors and investigators can get the required information?

1. By reviewing the previous case histories of taxpayers □

2. Using information from third parties such as financial institutions

17. Are taxpayers cooperate to give information for tax auditor/Assessor?

1. Not at all □ 2. Sometimes □3.Ussually□ 4.Allways□

2. 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)

NO	Statement	**Strongly agree**	**Agree**	**Neutral**	**Disagree**	**strongly disagree**
		5	**4**	**3**	**2**	**1**
	Questions regarding Audit case business for audit					
18	Tax auditors and investigators have good access to information held by the taxpayers and others					
19	Selection is based on taxpayer's cooperation to give					

	essential information necessary for performing an audit.					
20	Taxpayers (audited) are selected based on their associated compliance risk					
21	Case Selection is based on the availability of resource for tax audit					
22	Selection is based on taxpayers high tax potential					
23	Series evasion and fraud are basis for selection					
24	Auditors select audit cases manually based on their own knowledge of taxpayers behavior and environment					
25	Tax payers selected for audit is through screening and case review					
26	Tax auditors select audit cases randomly without any analysis					

18 How do you consider the following items as a challenge to the practices of tax audit in jimma zone revenue authority? please rate the severity level of each item using a five –point scale : where 5, very sever challenge 4, sever challenge 3, moderate challenge, 2, minor challenge and 1,inconsiderable challenge

NO	Items	Rating scales				
		5	**4**	**3**	**2**	**1**
A	Limited capacity of management and leader ship on the part of jimma revenue authority on tax audit administration					
B	Lower level of commitment from leaders at all level jimma revenue authority on tax audit related issues					
C	In adequacy of resource and facilities required for tax audit					
D	Absences of coordinated efforts among woreda offices of the zone engage on tax audit related responsibilities					

E	Improper work environment and poor office arrangements for tax audit practices					
F	Lack of clarity of police, regulation and legal framework regarding tax audit					
G	Weak understanding of tax related rules and regulations among tax payers					
H	Lower level of tax payer educational background					