



## The Practices and Challenges of Tax Audit: Case Study on Finfinnee Branch Office of Oromia Revenue Authority

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### ABSTRACT

*The study was concerned with assessing practices and challenges of tax audit in Oromia. To achieve this objective, a sample of 112 taxpayers and 42 tax officials with a questionnaire survey were conducted at Finfinnee Branch Office of Oromia Revenue Authority, in Addis Ababa, for the year 2021/2022. Both descriptive and quantitative methods of analysis were used. In addition, interviews were conducted with Deputy Head, Branch Manager, Tax Audit Director and Tax Audit Team Leaders of ORA and the Branch office. The findings revealed that the practices to achieve ultimate goals of tax audit was found at moderate level; Tax Auditors of the Office do not make sufficient efforts to create Taxpayers' awareness; they usually focus on increasing the collection of government tax revenue, including detecting tax evasion and avoidance, and not proportionally focus on all types of tax audit techniques. The finding further indicated that, majority of tax audit cases were usually selected using the criteria of the annual profit declared by taxpayers and there is no well-established strategy that makes tax audit case selection efficient and effective. Overall, the practices of tax audit at Branch Office were poorly practised. Regarding the challenges of tax audit, factors related with culture of corruption, estimation of tax amount; consideration of illegal ways of doing business; and absences of reliable and up-to-date record keeping practices among taxpayers were identified as the most severe challenges. Thus, managers in the tax administration should exert their strategic effort on the essential factors. Moreover, policymakers need to develop and apply improved schemes on key recommendations of the study include developing and utilising risk-based tax audit, coordinating sector offices' efforts, and maintaining public trust in the tax administration. Future research should extend on the risk-based tax audit strategy and to catch up on the other unexplained factors by this study.*

### KEY WORDS

*Auditing, Tax Audit, Audit Practices, Tax Audit Challenges, Oromia, Ethiopia*

## 1. INTRODUCTION

### 1.1 Background of the Study

Taxation is one of the important elements in managing the national income of any country. It provides governments with the funds needed to invest in development, alleviate poverty and deliver public services. "Taxation is imposition of compulsory levies on individuals or entities by governments primarily to raise revenue for government expenditures, although they serve other purposes as well" (Neumar et. al., 2023: p.1). Any government of the world needs financial resources to act as a government and play a role that is expected from it by the public. James and Nobes (2000) stated that taxation is one method of transferring resources from the private to the public sector.

Tax is a compulsory levy, imposed by the government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return (Lymer and Oats, 2009). It involves every aspect of income generating activities and consumption items and requires not only administrative capacity of revenue authority but also the involvement of private sectors through proper accounting and reporting systems (World Bank, 2011).

However, tax is usually vulnerable to evasion and fraud, which has become the concern of many countries. As Baurer (2005) noted, tax fraud is a deliberate misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability. It typically includes underreporting profits, overstating deductions, underreporting employee wages, failure to register or file

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tax declarations, hiding of taxable receipts coming from the production and distribution of real products and services, and abuse of tax return through fictitious transactions and trades. A tax audit is an examination of whether a taxpayer has correctly assessed and reported their tax liability and fulfilled other obligations. Tax audits are often more detailed and extensive than other types of examination, such as general desk checks, compliance visits/ reviews or document attaching programs (OECD, 2006a).

Tax audits play a critical role in the administration of tax laws through their detection of non-compliance and by serving as a deterrent to the wider population of taxpayers who might otherwise engage in noncompliant behaviour (Smith and Keen, 2007; Renyan et al., 2022). A Tax audit would serve to ensure that the books of accounts and other records are properly maintained; faithfully reflect the income of the taxpayer and claims for deduction correctly made by him/her; help in checking fraudulent practices; and facilitate the administration of tax by a proper presentation of accounts before the tax authorities and considerably saving the time of assessing officers in carrying out routine verifications like checking correctness of totals and verifying whether purchases and sales are properly vouched or not, thereby their time could be utilized for attending to more important investigational aspects of the case (Reagan, 2015; Lazos, 2022).

In Ethiopia, the modern tax system is a product of more than half a century of experimentation in legislation and tax reform. According to Tadesse (2012 cited in Worku, 2016) found that since its humble beginnings in the 1940s, the modern Ethiopian tax system has developed and evolved by fits and starts as the needs for revenue arise, as governments change and as the economy and international situations shift. ORA has been established by proclamation number 175/2005 of Caffe Oromia. The ORA is authorized by the law to collect tax and to assess the accuracy of declared tax liability by the taxpayers in respect to the stated tax laws and regulations. Nowadays, ORA performs its function in the region at the head office and branch offices found in 21 zonal and 19 city administrations as well as the Finfinne branch found in Oromia Regional State. Regarding tax audit practices, a report on a survey made on ORA's branch offices found at city administration levels confirmed inefficient practices of tax audit in the region (ORA, 2015). However, the issue of tax audit practices and challenges in the region was not obtained properly by researchers. As far as the researcher's knowledge is concerned, there is no independent study carried out focusing on the Finfinne branch of ORA.

### ***1.2. Statements of the Problem***

A tax audit is one of the most sensitive relations between the taxpayer 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 taxpayers' books and records, or just the disruption of day-to-day workflow, represents a burden on the taxpayer (OECD, 2006b). Tax audit is an activity, or a set of activities performed by tax auditors to determine a taxpayer's correct tax liabilities for a particular accounting or tax period, by examining a taxpayer's organisation procedures and financial records to assess compliance to tax laws and verifying the true, fair, reliable, and accuracy of tax returns, and financial statements (ERCA, 2010; Gobachew et al., 2018). Thus, tax audits become a bridge that is believed 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 the tax laws. Hence, existence 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. To meet this requirement, tax audit should be performed by an effective tax audit program, well established case selection strategy, and highly skilled auditors.

However, as noted by Ebrill et al., (2001), several developing countries do not yet have effective audit programs due to: insufficient numbers of the required qualified and appropriately paid audit practitioners, absence of a sound institutional audit practices, illegal cooperation between taxpayers and auditors, lack of clear political support for the tax administration, and the deficiency of an appropriate legal and judicial environment. Additionally, according to Hellenstein (2005), those countries tend to offset weak tax audits by adopting complex procedures, such as increased filing requirements and massive cross-checking. This, in turn, might result in administrative difficulties and increase the compliance cost of taxpayers. In Ethiopia, a tax policy is geared towards promoting investment, supporting industrial development; and broadening the tax base and decreasing the tax rate, at least maintaining the current reduced tax rates compared to most other countries, in view of financing the ever-growing needs of the government expenditure. Furthermore, the policy is designed towards discouraging certain production and consumption activities, which had /and will have bad effects on health, moral, economic, and social settings of the community (ERCA, 2010).

Based on those policy directions, as stated on revenues and customs authority establishment proclamation (No. 587/2008) of the country; government services in relation to tax and trade are being rendered by several institutions problems regarding with the manner of service rendering, keeping and utilization of information and promotion of law and order are being resulted. Similarly, it has been an issue of discussion among the public that the ORA has not been able to carry out efficient tax audits. As a result, it is argued that the mentioned poses can create crucial challenges for the effective undertaking of tax audit by the authority. Moreover, a report on performance assessment

made on ORA branch offices found at city administration levels (ORA, 2015), confirmed inefficient practices of tax audit in the region. The report revealed that, tax audits had not performed on time; tax related decisions are not properly focused on legal frameworks; data and documents were not properly organized at branch offices; implementing tax audit on scheduled bases was poorly practiced; there were no clear criteria to select tax audit case; resources required for tax audit were not adequately fulfilled at the branch offices of ORA found in city administrations. However, the issue of tax audit practices and challenges did not get proper focus by researchers. Particularly tax audit related issues were not sufficiently studied at regional and local level of the region. Hence, the research questions for this investigation are as follows:

- What are the factors that influence the tax audit practices in Finfinne branch office of Oromia revenue authority?
- What are the major challenges of tax audit in Finfinne branch of Oromia revenue authority?

## **2. Literature Review**

### **2.1 Theoretical Literature review**

Audit is defined as the structured examination of business relevant commercial systems financial and non-financial records, physical stock and other assets, internally generated data and that produced independently of the business. Tax audit is a critical and significant component of the compliance activities of tax administration by means of proper use of enforcing tax laws; it is the conduct by audit staff for the appropriate verification of selected taxpayer's whether he/she has been correctly declaring the tax liabilities including a review of taxpayer's systems, books of account and other related information. It may include crosschecks of taxpayer's records with those of taxpayer's supplier's or with other government departments and agencies source of information and its effectiveness and efficiency must be guaranteed by means of proper procedures and application of modern audit tools and techniques (OECD, 2006a).

A tax audit is one of the most sensitive contacts between the taxpayer 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 workflow, represents a burden on the taxpayer (OECD, 2006b). Most taxpayers report their tax liabilities more accurately if they believe that the tax administration has the capacity to detect any unreported liabilities and that a 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 taxpayers. Further, Barreca and Ramachandran (2004) noted that the purpose of tax audit is to check the evasion of tax and ensure compliance in accordance with the laws and regulations.

Adams (1994) used agency theory to explain that it is in the interest of management to maintain a strong internal audit department. Implementation of audit recommendations is highly relevant to audit effectiveness (Van Gansberghe, 2005) and the management of an organization is viewed as the customer receiving internal audit services. As a result, management's commitment to use audit recommendations and its support in strengthening internal audit is vital to audit effectiveness (Sawyer, 1995). Using agency theory, Xiangdong (1997) explained the role that internal audit plays in an economy and points out that internal audit has an advantage over external audit in obtaining information quickly and finding problems at an earlier stage; and Spraakman (1997), applying the theory of transaction cost economics, demonstrated how internal audit recommendations are important to the management of government organizations. Audit findings and recommendations would not serve much purpose unless management is committed to implementing them. "Auditors are engaged as agents under contract, but they are expected to be independent of the agents who manage the operations of the business. The primary purpose of audited accounts in this context is one of accountability and audits help to reinforce trust and promote stability" (Audit quality, 2005).

Watts and Zimmerman (1978), seek to develop a positive theory of the determination of accounting standards. "Such a theory will help us to better understand the source of the pressures driving the accounting standard-setting process, the effects of various accounting standards on different groups of individuals and the allocation of resources, and why various groups are willing to expend resources trying to affect the standard-setting process" (p.112). The concept of institutionalisation is related to organizations actions over time. Such actions are said to be legitimated within an organization and environment (Pfeffer, 1982). Institutional theory suggests that internal operating processes loosely coupled with the observable structures accomplish the real work of an organization. As a result, organizations with the appropriate structures in place will avoid deep investigations of their function by external auditors (Meyer and Rowan, 1977). Organizations are subject to rules and regulations to which they must conform to ensure their legitimacy and thus have access to resources and ensure their survival (DiMaggio and Powell, 1983). However, these rules and regulations don't necessarily guarantee that organizations will continue to operate efficiently (Meyer and Rowan, 1977; Scott, 2008). Institutional elements comprise the institutions and over time the institutional elements are given priority. The key point is to identify what institutional elements reinforce or

undercut other elements (Scott, 2008). Functional pressure, political pressure and social sources are three possible factors that cause pressure on institutional common practices (Oliver, 1991).

Stewardship theory outlines a co-operative and optimistic view of relationships within the corporation by assuming that managers are good stewards and do not misappropriate corporate resources; their behaviour is also conditioned by non-financial motives such as the need for recognition of their achievements and performance (Vanden et al., 2004). Thus, the directors' role is to counsel and advice rather than to monitor the stewardship theory that holds that no inherent, general problem of executive motivation exists. The model of man is based on a steward whose behaviour is pro-organizational and collectivistic. According to the stewardship theory, there is no need of implementing monitoring mechanisms. There is no need to engage audit services to secure the reliability of information. However, within stewardship theory an audit could be of value as a means of assisting the executive's stewardship.

Stakeholder theory explains the relationship between organizations and their external environment (Freeman, 1984). A stakeholder is defined as a human agency that can have an impact or affect organizations (Gray et al., 1996). Stakeholders represent the big umbrella for all individuals and parties that may have a direct or indirect interest in an organization. Direct stakeholders are shareholders, employees, investors, customers, and suppliers whose interests are aligned with the company. An example of an indirect stakeholder is the government, which is indirectly affected by the company's function (Kiel and Nicholson, 2003). Due to this role of stockholders, organizations are not only accountable to shareholders only but also to stakeholders.

## **2.2. Empirical Literature Review**

Over the past decades many developing countries have implemented comprehensive reforms of their tax administrations 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 several 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. Bird (2003) 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 groups is due to problems with taxpayer identification, illiteracy and poor record keeping and sometimes, wilful intention of these potential taxpayers to evade tax.

Another challenge was associated with a lack of taxing 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 several 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 computers and facilities, and lack of reliable statistical data (Kangave, 2005; Chalu and Mzee, 2018).

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 to ensure compliance with tax laws. 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 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; Tesema and Teklu, 2020).

Besides, according to Kitillya (2011), tax audit challenges are classified into 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 Biodata; Physical Location of Business Entities; Internally Robust Integrated Operational Systems; and Externally Poor ICT Backbone.

On the other hand, Juan (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. Moreover, inadequate resources are impacting taxpayer service delivery and adequacy, and appropriateness of compliance interventions. Ensuring appropriate resources to revenue administration is a longstanding battle. Developing country revenues administration often under resourced-adequate resource assurance an imperative. 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 systematically built.

Furthermore, a problem of tax audit was associated with 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 (Tanzi and Zee, 2000; Drogalas et.al., 2015). Corruption is also another factor that hinders the success of Tax Audit practices. 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 misbehaviour-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 decisions at the highest level are essential. Moreover, sustained political will is a significant factor for the successful practices of Tax Audit at any level of a Nation. 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 have 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 rely 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.

Sen and Bala (2002) studied income tax audit operations in Bangladesh. The intent of the study was to conceptualize the term tax audit conducted by professional chartered accountants, and to give an overview of the prevailing tax scenario and the operations of income tax audit. The methods adopted were experience survey and personal interview with tax officials in National Board of Revenue (NBR), and documentary analysis using documents such as Government statistical yearbooks and/or annual reports, and publications of the World Bank (WB) and the United Nations Development program (UNDP). The results of the study confirmed that Bangladesh is unable to raise enough resources through taxes. The ratio of tax revenue to GDP is usually low, only little more than 9 percent of GDP. The study also revealed that income tax audit is conducted both in mandatory and discretionary manner although the extent of income tax audit practice is awfully inadequate. The major reasons identified in the study were unawareness and undesirability of most assessments, and the hesitation of chartered accountant (CA) firms to take up the task of tax audit. The hesitation of CA firms is because the sensitivity of the tax audit task spreads not only in the relevant year, but also in the future years until the finalization of the audit. Moreover, some established CA firms are often reluctant to perform the audit of tax basis accounting due to inadequacy of information, lack of efficient personnel, absence of audit continuity over the years, and want of logistic support to maintain track record of information for future reference in tax cases.

Arachi and Santoro (2007) studied the use of tax audit strategy as enforcement for small and medium enterprises (SMEs) in Italy. The study focused on a major innovation in the field of tax auditing of self-employed workers and small firms. The methods adopted was documentary analysis using documents such as the Italian Tax Agency reports and previous studies made in Italy. The main finding of the study by Arachi and Santoro (2007) was that tax enforcement for SMEs is always challenging since they usually operate on the border between the formal and the shadow economy. The study further showed that the distribution of firm size affects the optimal tax enforcement policy in two ways. First, there can be a relationship between firm size and the propensity to evade or to avoid taxes. Small traders may underreport the tax base, exploit loopholes in the tax system, choose an organizational form with preferential tax treatment, or operate outside the formal economy. Second, the costs and returns of tax auditing may depend on firm size. The study also argued that business sector analysis might be a valuable policy tool

for developing countries, which have a large shadow economy and a high share of microenterprises. Moreover, the findings of a study conducted on Taxation and Tax Audit Challenges across 58 developing countries (Carnahan, 2015), revenue systems in some developing countries have fundamental shortcomings. Besides, the increasing globalization of economic activity adds a further layer of complexity that developing countries need to manage in building and maintaining their revenue systems.

Gemmel and Ratto (2012) argues that random audit programs provide income taxpayers with information that alters their perceptions of, and hence their behavioural responses, audits. Comparing samples of randomly selected audited and unaudited UK taxpayers, the evidence confirms predictions that audited taxpayers found to be "compliant" reduce their subsequent compliance. The opposite response is observed for taxpayers found to be "noncompliant." The results highlight the importance of testing separately the responses of taxpayers facing different opportunities and incentives to evade tax in order to avoid conflating their different effects, and to reveal both positive and negative indirect revenue effects from random auditing.

Appelgren (2008) studied the effect of information regarding different audit strategies on taxpayers' compliance behaviour in Sweden. The study was conducted with the intent of examining whether the taxpayers behave as expected by theory of tax audit. Experimental design was used to test the effect of information regarding different audit strategies on taxpayers' compliance behaviour. The experiment was measured as the change in declared income between years and was conducted in 2003-04 on approximately 900 sole proprietors which are divided into three groups (rational group, random group and control group) each with around 300 firms. The rational group members were informed that the audit would focus on taxpayers declaring lowest income. The random group was told that the audit would be at random whereas the control group's 36 members received no information. Further, the sample was limited to men below the age of 55 to concentrate on a high-risk group (younger men are more fraudulent than women and older men). The principal finding of this study was that declared income increased significantly more in the rational audit strategy group than in the control group. The results of the study indicate strongly that information concerning the use of rational audit strategies is superior to information concerning random audits, and that audit information, in general, is superior to no information. 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 behaviour to the expected degree of auditing if they are made aware that they may be audited.

### **3. Research Methodology**

#### ***3.1. Research Design and Approach***

This research is conducted to assess the practices and challenges of tax audit in the Finfinne branch of ORA. Thus, the research followed an explanatory and a survey data research design. As said by Kothari (2004) there are two basic approaches to research, the qualitative approach, and quantitative approach. The former approach to research is concerned with narrative or in-depth information. Whereas the latter involves the generation of data in a quantitative form which can be subject to rigorous quantitative analysis in a formal and rigid fashion. Qualitative research approach explores attitudes, behaviours and experiences (Dawson, 2002). The researcher collects open-ended emerging data with the primary intent of developing themes from 31 the data (Creswell, 2007). Apart from this, it facilitates responses, and provides data in-depth with leading respondents (Dawson, 2002). It can generate a theory by addressing issues which cannot be quantified. Therefore, the purpose of the qualitative aspect of the study is to deeply understand tax audit practices and challenges at the ORA of the Finfinne branch office. Thus, considering the advantages of its flexibility in which new questions could be forwarded during the interview session, semi-structured questions were prepared and used for this study. The qualitative data that were obtained from interview responses were presented and narrated in a separated section.

On the other hand, quantitative research generates statistical data using middle 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 collected data on predetermined instruments that yield numeric data that were analysed using statistical procedures. Once the survey data have been collected, they are analysed so that the causal connection specified by the hypothesis or research questions can be verified or answered (Scott and Morrison, 2006). Thus, it is a means for testing objective theories through examining the relationship among variables. It minimizes bias from the researcher's influence and employs possible sample size. Though, the results can be believed, and the results can be generalized to a larger population. So, it may have limited scope. Mixed approach is the blend of both qualitative and quantitative approaches. It employs strategies of inquiry that involve 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.

### 3.2. Sampling Design and sample size

The sample was taken from randomly selected higher taxpayers and a census of tax auditors and officials of the Finfinne branch office as well as head office of ORA. Population or universe means the entire mass of observations, which is the parent group from which a sample is to be formed (Singh, 2006). The population of the study includes the entire set of all business income taxpayers and tax auditors operating in the ORA from the Finfinne branch office. Accordingly, the target groups for the study were 161 higher level taxpayers and 42 tax auditors and other officials from the office. For this study the sampling frames were the list of 161 target populations of higher taxpayers, and 42 revenue office tax auditors and officials from which the required number of sample size and census were drawn, which was available in the ORA of Finfinne branch office.

For this study the researcher used probability sampling techniques to identify the respondents from taxpayers, even if there are different types of probability sampling techniques, the appropriate one for this study is simple random sampling method of a lottery method in which tickets are prepared for each unit of the population. Then the tickets are mixed up and the required number of tickets (sample) will be drawn from the tickets, because it improves the accuracy of the sample because of the target population of the study has one stratum, based on their attributes that is income or sales: higher taxpayers (Hammond and McCullagh, 1974). On the other hand, the researcher used a census method to select respondents from the revenue office. That is, in the ORA and Finfinne branch offices, there are 42 tax auditors and concerned officials. Census method is the most reliable sampling technique especially if the number of populations is small. Hence, the target population of tax auditors and officials are small.

Determining sample size is a very important issue because samples that are too large may waste time, resources, and money, while samples that are too small may lead to inaccurate conclusions. To ensure the validity of the findings, the study used adequate sample size. The researcher was determined to accept a 5% sampling error and wanted to be at 95% confidence with the findings of this study. Having determined the accuracy and level of confidence, the sample size determination adopted from (Israel, 2013). The reason for 95% level of confidence was based on the homogeneous characteristics of business income taxpayers, that is, taxpayers pay their tax liability based on their annual transaction and most taxpayers show unwillingness to tell their actual sells transaction due to this, error at five percent did not affect the reliability and validity of the results. The target or the theoretical

population of the study constitutes two specific sets of units from which the sampling units were drawn. The first set of sampling units comprised all registered business taxpayers operating in ORA Finfinne branch office that is currently about 161. The second set of sampling units comprised the census of revenue office tax auditors and concerned officials who are about 42 at the time of data collection.

In agreement with the above argument in each sample frame based on simple random sampling and census techniques. Hence, business income high taxpayers, of the total respondents of taxpayers in the ORA of Finfinne branch office, 114 taxpayers' samples were selected to be respondents or participants of the study, but the population of 42 tax auditors and officials are taken by census because a zone is a small group of population, then the total sample size is 156.

Given the above assumption, the sample size was estimated by:

$$n = \frac{Z^2 \times p(1-p)^2 \times N}{(e^2(N-1) + Z^2 \times p(1-p))}$$

$$n = \frac{1.96^2 \times (0.5)(1-0.5) \times (161)}{((0.05)^2 \times (161-1) + 1.96^2 \times (0.5)(1-0.5))}$$

$$n = 114$$

### 3.3. Data and Data Collection Techniques

Data required for the study were collected from primary sources. These data were obtained from the taxpayers, tax auditors and officials of the branch and head office. The respondents were given a chance to put their attitude towards the constructs. In this study two sets of survey instruments were used: one for the taxpayers and the other one for the tax auditors and officials survey. The survey used structured closed ended questions. The questionnaires were prepared in simple English language to make the respondents (particularly taxpayers) easily understand the questions and respond to them correctly.

In conducting the surveys, the study used self-administered questionnaire approach where questionnaires were distributed in person to selected respondents. The researcher along with a research assistant will distribute the survey instruments and collect them back. The data collected for this study were checked from collection to data entry before they were ready for analysis. At the beginning the data collected from all sources were checked and organized with respect to basic research questions and objectives of the study and then analysed quantitatively and qualitatively.

### 3.4. The Data and Data Analysis

Descriptive statistics were employed for demographic data, like frequency, percentage, mean, standard deviations and ranges. The quantitative data were tabulated and processed using Statistical Package for Social Sciences (SPSS V-24).

It was 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 (Langdridge, 2004). So, the researcher believed that using SPSS was appropriate in processing and analysing the data collected for the study. Moreover, for visual presentation of the results of the study, quantitative data were collected from all sources and were processed through SPSS were organized and illustrated in tables. The analyses of the quantitative data made using descriptive statistics, like frequency, percentage, mean, standard deviations and ranges. Furthermore, analysis and discussions of the data were carried out following each table.

According to Ann et al. (2012), the concept of validity is used to judge whether the data collection instrument used in any research accurately measures what it intended to measure. Thus, validity is focused on a criterion for the integrity of an instrument used for data collection in terms of accuracy of inferences and trustworthiness. The results of this formula commonly known as Cronbach’s alpha coefficient could be used to determine the reliability of an instrument. Whereas reliability of is referred to as the extent to which the instrument yields consistent result when the characteristics being measured has not changed. So, to assure data quality, the instruments prepared for data collection were validated and tested at pilot level for its reliability before being used as a data collection tool. Primarily, the validity of the instruments was tested by two instructors of the department including the research advisor to judge the items on their appropriateness and clarity of the contents. The comments forwarded from these professionals were used to make an amendment on some items of the questionnaire. Then, the reliability of the questionnaire was tested through pilot study. In the pilot

**Table 1 Respondent’s views on Tax Audit Program Overview**

Statements	Taxpayers		Tax Officials		Total	
	Mean	Sd	Mean	Sd	Mean	Sd
Management does provide enough support and encouragement for training and developing the tax auditors	2.52	1.50	2.59	1.40	2.55	1.45
Audit is supported by intelligence input	3.13	1.39	3.68	1.03	3.41	1.21
The audit work is started and completed within a predetermined timeframe	3.62	1.16	3.97	1.28	3.79	1.22
Effectiveness of tax audit is measured by volume of the audit performed	3.40	1.20	3.73	1.40	3.75	1.3
Effectiveness of tax audit is measured by enhanced tax compliance and revenue collection	3.50	1.23	4.00	1.15	3.56	1.19
Overall Results	3.23	1.36	3.59	1.25	3.41	1.27

Source: Own result (2022)

With regards to the office tax audit program; Taxpayers and Tax Officials/Auditors who participated in this study were asked to rate the extent of practices of major programs usually enabled by the tax audit program during the tax

study the questionnaires were distributed to 20 respondents randomly selected to respond to the questionnaire from Tax auditors and Taxpayers. Then, to test the reliability level of the questionnaire, Cronbach’s alpha coefficient was calculated.

Concerning the acceptance level of Cronbach’s alpha results, Bryman (1990) suggests that the results of reliability level is acceptable if it is 0.67 or above. Besides, Cohen et al. (2007:506) suggested that: >0.90 = very highly reliable; 0.80–0.89 = highly reliable; 0.70–0.79 = reliable; 0.60–0.69 = marginally reliable; and <0.60 = lowly reliable or unacceptable. Thus, to determine the acceptability of the reliability level of the questionnaire; the calculated Cronbach’s alpha coefficient for each item of the instrument was compared with the above suggestions. Accordingly, the calculated Cronbach’s alpha coefficient for all items of the questionnaire was found at 0.821. This confirmed that the reliability level of the questionnaire was found at High Reliability level.

#### 4. Results and discussions

##### 4.1. Tax Audit Practices

In this part respondents’ responses regarding Tax Audit practices at Finfinnee branch office of ORA were presented. It basically focused on the tax audit program, the adequacy of tax audit resources, tax audit case selection methods used, types of tax audit frequently performed, frequency of audit performed, and the audit techniques applied.

audit period. More specifically, five major programs were identified and presented for respondents to rate the practices at ORA of Finfinnee branch office. According to the data illustrated in Table 1, both groups of respondents were rated all items synonymously; and statistically



significant differences were not observed between them. The data illustrated in the table showed moderate mean scores for most tax audit programs identified by the respondents. Only one item was rated by respondents about lower level of practices at the Finfinne branch office of ORA.

Accordingly, the data of this table showed that the program of the audit work started and completed within a predetermined time frame (Mean=3.79, stand. Deviation =1.22) was better performed by tax auditors of the Region than other programs expected from the auditors to implement. Next to this, as illustrated in the Table, the programs of the tax administration of the branch office was rated at a moderate level in measuring the effectiveness of tax audit by volume of the audit performed by tax auditors (Mean =3.75, stand. Deviation =1.3). On the other hand, respondents rating results illustrated in the table showed that out of the five items listed in the table, management support and encouragement for training and developing the tax auditors (Mean =2.55, stand. Deviation =1.45), have rated as they were not sufficiently performed by tax administration of ORA of Finfinne branch office. This means, management of the office has not made sufficient efforts in developing tax auditors' that might help the branch office to increase voluntary compliance of taxpayers and to mitigate future compliance risks. However, tax auditors were good in implementing tax audit programs by starting and completing audit tasks within a predetermined time frame, which will be a key task for the

**Table 2 Respondents' View on the Goals of Tax Audit**

Statements	Taxpayers		Tax officials		Total	
	Mean	St.d	Mean	Sd	Mean	Sd
Increasing the compliance level of taxpayers to the tax laws	3.28	1.27	4.16	.69	3.72	.98
Increasing government tax revenue	3.59	1.22	4.00	1.22	3.79	1.22
Creating deterrence effect on non-compliant taxpayers	3.41	1.27	3.59	1.44	3.5	1.35
Detecting tax evasion and avoidances	3.58	1.18	3.73	1.09	3.65	1.13
Training the Taxpayers	2.28	1.45	2.73	1.38	2.51	1.41
Overall Results	3.23	1.27	3.64	1.16	3.43	1.21

Source: Tax auditors'/Taxpayers field Surveys and own computation (April 2022)

With regards to the review of tax Audit programs, respondents were asked to rate the ultimate overview of the tax audit program at the Finfinnee branch office of ORA. Accordingly, the responses of both groups of the respondents were illustrated in Table 2 including five

effectiveness of tax auditors of the ORA at the Finfinne branch office.

Our interview data confirmed that the audit program at the Finfinne branch office focused on large taxpayers. Particularly, those business firms of the taxpayers licensed at regional level and worked at different zones and districts of the region are assigned to pay a tax at the Finfinne branch office. They argued that those taxpayers have a large tax potential and have a massive impact on investment and other economic development of the region and the country at large. They further stated that, since such taxpayers can contribute a highest amount of tax revenue as well as have complex structure, and multiple operating entities; they are assigned to pay a tax at the Finfinne branch office. The responses of the interviewees' showed that the Finfinne branch office of ORA used tax audit as a compliance enforcement tool to collect unpaid taxes from taxpayers and to encourage taxpayers to voluntarily discharge their tax obligations. The interview respondents further stated that the issue of taxpayers' awareness creation is unquestionable to increase voluntary compliance and to mitigate compliance risks. However, they tried to create tax awareness through electronic media, printed materials, websites, and few face-to-face discussion forums; with taxpayers they responded as they did not strongly emphasise on supporting taxpayers and offering training to them as the ultimate goals of the tax audit program in the branch office of ORA.

items. As seen from the Table, the overall practices of tax audit program at Finfinnee branch of ORA were found at moderate level (Mean=3.43, stand. Deviation =1.21); without significance differences between taxpayers' and

tax auditors/officers in responding all items illustrated in the Table 2.

However, among the five items listed in the Table 2; item number two (increasing government tax revenue: with Mean =3.79, stand. Deviation =1.22); and item number one (increasing the compliance level of taxpayers to the tax laws: with Mean =3.72, stand. Deviation =.98) were identified as the top-two objectives in that the practices of tax audit at Finfinnee branch office of ORA was

**Table 3 Respondents Views on the Tax Audit Resources**

Statements	Taxpayers		Tax Officials		Total	
	Mean	Sd	Mean	Sd	Mean	Sd
The tax audit department has enough audit staffs to perform audits on all taxpayers	2.72	1.55	2.84	1.28	2.78	1.41
Enough materials and equipment for audit program	3.34	1.29	3.68	1.10	3.51	1.19
Well organized structure and suitable office	2.65	1.49	2.62	1.46	2.63	1.47
Required budget for Tax audit was sufficiently allocated	2.89	1.32	1.81	.66	2.35	.99
Overall Results	2.9	1.41	2.73	1.12	2.81	1.26

Source: Own result (2022)

Regarding the availability of resources required for tax audit, the data illustrated in Table 3 showed tax auditors/taxpayers rating results. According to the responses of tax auditors/taxpayers, of ORA was arranged and organized tax audit function with enough materials and equipment's required for tax audit programs at branch office level (Mean =3.51, stand. Deviation =1.19). On the other hands, tax auditors/taxpayers also rated lowest mean score (Mean =2.63, stand. Deviation =1.47) regarding the availability of organized structure and suitable office for tax audit function required for tax audit programs at Finfinnee branch office of ORA.

Moreover, as can be seen from the table, the issue of having enough human resources needed for tax audit at branch level (Mean =2.78, stand. Deviation =1.41) was not fully available to perform tax audit activities at all taxpayers' business firms. In addition, regarding the

contributed more than the remaining other goals of tax audit listed in the Table. On the other hand, the practices in the branch office contributed less for the success of tax audit objectives regarding training the taxpayers (Mean =2.51, stand. Deviation =1.41); and creating a deterrence effect on non-compliant taxpayers (Mean =3.5, stand. Deviation =1.35).

allocation of required budget for tax audit activities was rated by the respondents (Mean =2.35, stand. Deviation =.99); indicating about low level of budget allotted every year for tax audit activities of the branch. In general, the data of the table clearly indicated that, the authority had faced a problem in having enough human resources and budget (particularly tax auditors) than office facilities and equipment required for tax audit at Finfinnee branch office of ORA. Regarding the availability of resources required for tax audit, the responses of officials for interview questions did not show scarcity and shortages in this regard. According to the responses of those officials, ORA arranged and organized a tax audit function using appropriate instruments required for tax audit at the Finfinnee branch office. Moreover, they responded that materials and equipment required for tax audit programs at the branch office were sufficiently available.

**Table 4 Respondents' View on Tax audit Case Selection Method**

Statements	Taxpayers		Tax Officials		Total	
	Mean	Sd	Mean	Dd	Mean	Sd
Taxpayers are selected based on associated compliance risk	3.35	1.30	4.14	.67	3.74	.98
Audit case selection is based on the availability of resources for tax audit	3.16	1.26	3.51	1.04	3.33	1.15
Amount of capital and high tax potential of the taxpayers	3.93	1.29	3.49	1.38	3.71	1.33
Serious evasion and fraud related information on taxpayers	3.50	1.34	4.27	1.01	3.88	1.18
Using simple random sampling technique without any analysis	2.44	1.16	2.65	1.16	2.54	1.16
Auditors' knowledge about taxpayers behaviour and environment	3.29	1.33	3.30	1.28	3.29	1.3

Simply by orders given from officials of the authority	3.65	1.12	2.81	.96	3.23	1.04
Amount of annual profit declared by Taxpayers and possible amount of tax to be collected	3.65	1.22	4.27	.69	3.96	.95
Through screening and case review, using criteria set for these purposes	3.08	1.26	4.03	.72	3.55	.99
Overall Results	3.37	1.25	3.61	.99	3.49	1.12

Source: Own result (2022)

Moreover, tax audit selection criteria like amount of capital and high tax potential of the taxpayer (Mean =3.71, stand. Deviation =1.33); Taxpayers are selected based on associated compliance risk (Mean =3.74, stand. Deviation =.98); amount of annual profit declared by taxpayers and possible amount of tax to be collected (Mean =3.96, stand. Deviation =.95); and Serious evasion and fraud related information on taxpayers (Mean=3.88, stand. Deviation =1.18); were also frequently practices at Finfinnee branch office of ORA. On the other hand, among nine items listed in Table 9, issues like audit case selection is based on the availability of resources for tax audit (Mean =3.33, stand. Deviation =1.15); Simply by orders given from officials of the authority (Mean =3.23, stand. Deviation =1.04); Auditors knowledge about taxpayers' behaviour and environment (Mean =3.29, stand. Deviation =1.23) and using simple random sampling technique without any analysis (Mean =2.54, stand. Deviation =1.16) were not frequently used as tax audit selection criteria at Finfinnee branch office of ORA when compared to the remaining criteria listed in Table 4.

These clearly showed that the criteria used to select taxpayers' business firms for tax audit were focused on information coming from taxpayers rather than

systematically organised strategies designed by the Finfinnee branch office of ORA. This indicated the branch office's weak consideration of critical aspects of tax audit issues. In relation to tax audit case selection methods used; the officials were asked to respond to a question regarding the conditions and major criteria usually used by the Finfinnee branch office to decide the need for tax audit of a certain taxpayer. As testified by the interview responses of the officials, the taxpayers have been selected based on their associated compliance risk for audit. The interview respondents further stated risk criteria that include: the trend of delay in tax payment, non-filing tax returns, nil tax declaration, showing abnormal and repetitive loss report, profits significantly deviated from previous periods, report of too deviated margin from similar businesses, over claimed deductions, unusual credit, and past case histories of taxpayers.

**Table 5 Frequency of Tax Audit performed.**

Items	Taxpayers %	Tax Officials %	Total %
Every business firm was audited once a year	22.86	29.12	25.98
Every business firm was audited once within two years	35.16	42.32	38.37
On average any businesses firm was audited once within three years or more	31.78	16.25	24.52
It is difficult to describe its frequency; they were selected randomly	16.75	5.42	11.13
Total	100	100	100

Source: Own result (2022)

According to the results illustrated in Table 5, those respondents who agreed on the frequency of tax audit of the businesses firm once every fiscal year accounted for only 25.98% of all respondents in this study. This was responded to by 22.86% of taxpayers and 29.12% of tax officials/auditors. On the other hand, as results illustrated in the Table, most of the respondents (38.37%) responded that, on average, a taxpayers' businesses firm was audited once within two years. Moreover, 24.52% of the

respondents indicated that the taxpayers' business firm was audited once within three years. In general, about 85% of both groups of the respondents responded as the frequency of tax audit performed at every business firm of the taxpayers was every one or two years; even within three years. Yet, a significant number of respondents (11.13%) also responded as it was difficult to describe the frequency; they were selected randomly.

**Table 6 Types of Tax Audit Usually Practiced by the Office (by Tax Officials)**

Items	Tax officials			
	Mean	SD	Min	Max
Desk Audit	4.03	0.96	2	5
Field Audit	4.19	0.82	2	5
Comprehensive Audit	4.25	0.44	2	5
Issue audit	3.5	0.67	2	4
Advisory audit	3	0.71	2	4
Deregistration Audit	2.91	1.27	1	5
Refund Audit	2.63	1.21	1	5
Fraud investigation	3.75	0.91	1	5

Source: Own result (2022)

In the questionnaire, tax auditors who participated from the Finfinne branch office were asked to rate the extent of practices of the types of tax audit at the Finfinne branch office of ORA; and their responses were illustrated in Table 6. According to the data of this Table, Comprehensive Audit (Mean =4.25, stand. Deviation =0.44); Field Audit (Mean =4.19, stand. Deviation =0.82); and Desk Audit (Mean =4.03, stand. Deviation =0.97) were rated by the respondent's 1st to 3rd level respectively. This indicated that the practices of tax audit at the Finfinne branch office of the authority was primarily emphasized on a comprehensive examination of all information relevant to the calculation of a taxpayer's tax liability for a given period. Next to this type of tax audit, the practices of tax audit at Finfinne branch office of ORA most of the time gave attention to a detailed examination of taxpayer's books and records to determine whether the correct amounts were reported on the tax returns. In such type of tax audit (Field Audit). Furthermore, the practices of tax audit at Finfinne branch office of ORA put emphasis on desk audit which usually carried out annually and primarily based on a review of income tax and VAT returns, or basic ratios comparing with previous periods or other taxpayers in similar business firms; and the cross checking of information included in the taxpayer files.

On the other hands among the eight types of tax audit listed in Table 6, Registration Audit (Mean =2.91, stand. Deviation =1.28); and Refund Audit (Mean =2.63, stand. Deviation =1.21) were not sufficiently practiced at Finfinne branch office of ORA as others. This indicated that undertaking a pre-refund audit to verify the taxpayer's entitlement to a refund prior to processing a first refund claim particularly for new registrants did not get proper attention at the Finfinne branch office of ORA. That is, the practices of tax audit at the Finfinne branch office of ORA were not properly focused to ensure that the taxpayer has a basic understanding of their obligations; keeps appropriate records; and issues proper invoices required by law.

Our interview results identified that comprehensive audit; field audit; and desk audit were frequently performed by tax auditors at the Finfinne branch office of ORA. They further explain that the practices of tax audit at branch offices were primarily emphasised on a comprehensive examination of all information relevant to the calculation of a taxpayer's tax liability for a given period. In such a type of tax audit, the objective is to determine the correct tax liability for a tax return. Moreover, in the practices of field audit type of tax audit, most of the time attention was given to a detailed examination of the taxpayer's books and records to determine whether the correct amounts were reported on the tax returns. Furthermore, as to the responses of the interviewees, the practices of tax audit at Finfinne branch office put emphasis on desk audit which primarily based on a review of income tax and VAT returns, or basic ratios comparing with previous periods or other taxpayers in similar business types; and the cross checking of information included in the taxpayer files.

The interview results also revealed that the Finfinne branch office of ORA sometimes conducts Fraud investigation audits at the branch based on the information that comes from various sources with evidence regarding the deliberate evasion and serious fraud. On the contrary, the interview respondents agreed that, among the known types of tax audit, deregistration audit and refund audit were not sufficiently practiced at the Finfinne branch office of ORA. This means, undertaking a pre-refund audit to verify the taxpayers' entitlement to a refund prior to processing a first refund claim did not get proper attention at the branch office. Moreover, they did not pay attention to performing unannounced visits to taxpayer's premises to detect businesses operating outside the tax system. That is, the practices of tax audit at Finfinne branch office were not properly focused to ensure that the taxpayer has a basic understanding of their obligations; keeps appropriate records; and issues proper invoices required by law.

**Table 7 Tax audit Techniques Usually Practiced in the branch Office.**

Items	Tax officials			
	Mean	SD	Min	Max
<b>Analytical Review:</b> A review of financial statements and returns are often completed during the preliminary stages of the audit. They are used to test the accuracy of Taxpayers' reported sales, cost of sales, or ending inventory	4.09	1	1	5
<b>Field Examination:</b> This includes 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	2.31	1.33	1	5
<b>Record Examination:</b> This includes the examination of books and documents conducted at the taxpayer's business office or branches, counterpart examinations and examination of savings and deposit accounts	3.41	1.19	1	5
<b>Investigative Approach:</b> 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	2.19	1.20	1	5
<b>Counterpart Examination:</b> It is an examination performed based on third party information 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	3.66	1.43	1	5

Source: Own result (2022)

The data illustrated in Table 7 showed that all tax audit techniques were to some extent practiced at the Finfinnee branch Office of ORA. However, the practices of using analytical review, that is, reviewing financial statements and returns to test the accuracy of taxpayers' reported sales, cost of sales, or ending inventory (Mean =4.09, stand. Deviation =1.00); and Counterpart Examination, a technique of examination performed based on third party information to verify the taxpayer's income (Mean =3.66, stand. Deviation =1.43) were relatively practiced higher than the remaining three tax audit techniques. Moreover, the data of the Table also indicated that, a tax audit technique known as record examination: which include the examination of books and documents conducted at the taxpayer's business office or branches (Mean =3.41, stand. Deviation =1.19) was also moderately practices at Finfinnee branch office of ORA.

On the other hands, a technique known as field examination, which 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 (Mean =2.31, stand. Deviation =1.33); and investigative approach: an approach that uses information obtained through observation, discussion, documents, or records obtained from either the taxpayer or other sources using information outside the accounting records to perform the audit (Mean =2.19, stand. Deviation =1.20) were not practiced as other tax audit techniques at Finfinnee branch office of ORA.

In addition, the interview results further confirmed that, the potential amount of tax revenue that might be found with the target taxpayer and the capability of that taxpayer to pay tax owed have been considered to perform an audit work. Regarding audit techniques applied at the Finfinnee branch office of ORA, the officials were asked to describe which tax audit techniques are usually applied by auditors to collect audit evidence from taxpayers. Accordingly, they were responded to as all types of tax audit techniques were practiced at the branch office. Nevertheless, the practices of reviewing financial statements and returns of the taxpayers to test the accuracy of reported sales, cost of sales, or ending inventory; a technique that focuses on examining a third-party information to verify the taxpayer's income were relatively practiced at the Finfinnee branch office of ORA.

Nevertheless, according to interview responses the officials, 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; and an approach that uses information obtained through observation, discussion, documents or records obtained from either the taxpayer or other sources were not usually practices as other tax audit techniques at Finfinnee branch office of ORA. In relation to the frequency of tax audit performed at Finfinnee branch office of ORA, those respondents selected for interview were asked a question that emphasized on existence and utilization of schedules for all taxpayers that necessitates tax audit works to be started and completed within a predetermined time frame.

#### 4.2. Major Challenges of Tax Audit Practices

In this part responses of the respondents regarding the second research question; that is, major challenges of tax audit practices at Finfinne branch office of ORA were presented. In this regard, 14 items as the possible challenges of tax audit practices were identified from extensive literature review were presented for the respondents to rate their severity at Finfinne branch office. Accordingly, the rating results of both groups of the respondents were illustrated in Table 4.13. According to

the data of this table, the maximum rating result (Mean =4.208, stand. Deviation =0.927) was identified regarding the tradition of corruption; and the minimum mean score was (Mean =3.008, stand. Deviation =1.181) regarding improper work environment and poor office arrangements for tax audit at the Finfinne branch office. However, as can be seen from the data of the table, statistically significant difference was not observed between two groups of respondents in responding to the remaining 12 items.

**Table 8 Major Challenges to the Practices of Tax Audit in Finfinnee Branch Office of ORA**

Statements	Taxpayers		Tax Officials		Total	
	Mean	Sd	Mean	Sd	Mean	Sd
Weak understanding of tax laws, rules, and regulations among Taxpayers	3.23	1.26	3.57	1.26	3.4	1.26
Less skilled and low experienced employees	3.10	1.09	2.38	1.38	2.74	1.23
Limited capacity of management and leadership on the tax audit administration	3.41	1.30	3.41	1.32	3.41	1.31
In adequacy of resource and facilities required for Tax Audit	2.97	1.20	3.19	1.33	3.08	1.26
Absences of Coordinated efforts among sector stakeholders of the region engaged on Tax audit related responsibilities	3.68	1.19	3.65	.97	2.32	1.08
Improper work environment and poor office arrangements for Tax audit practices	3.05	1.23	3.16	1.38	3.1	1.3
Inconsistency and frequent changes of regulations and laws related to Tax audit practices	3.37	1.33	3.65	1.00	3.51	1.16
Inflated estimation of tax amount on taxpayers and unfair volume of tax among similar businesses in the same proximity	4.18	1.01	3.65	1.35	3.91	1.18
Negative attitude towards tax paying practices among taxpayers	3.60	1.21	3.54	1.46	3.57	1.33
Taxpayers were considering illegal business practices as best way of doing business	3.81	1.15	4.00	.94	3.9	1.04
Absences of reliable and up-to-date data and record keeping practices among Taxpayers	3.75	1.09	3.92	.98	3.83	1.03
Taxpayers are not cooperative to give proper information for tax auditors	3.16	1.15	3.19	1.22	3.17	1.18
Existence of corruption and fraud	4.16	1.04	3.30	1.33	3.73	1.18
Interference of others on Tax Audit responsibilities	3.27	1.32	3.08	1.23	3.17	1.27
Overall Results	3.48	1.18	3.4	1.22	3.34	1.2

Source: Own Result (2022)

These results illustrated in Table 8 indicated the following six items as highly severe challenges that strongly affect the practice of tax audit at Finfinne branch office of ORA. They are: The culture of Corruption: request for informal payments to get things done during tax audit (Mean =3.73, stand. Deviation =1.18); Inflated estimation of tax amount on taxpayers and unfair volume of tax among similar businesses in the same proximity (Mean =3.91, stand.

Deviation =1.18); Taxpayers are not cooperative to give proper information for tax auditors ( $\mu=4.045$ , stand. Deviation =0.966); Taxpayers were considering illegal business practices as best way of doing business (Mean =3.9, stand. Deviation =1.04); and Absences of reliable and up-to-date data and records keeping practices among Taxpayers (Mean =3.83, stand. Deviation =1.03). Moreover, the results illustrated in Table 13 further showed that, negative attitude towards taxpaying practices among Taxpayers (Mean =3.57, stand. Deviation =1.33); Limited

capacity of management and leadership on the part of Finfinne branch office of ORA (Mean =3.41, stand. Deviation =1.31); Weak understanding of tax laws, rules, and regulations among taxpayers (Mean =3.4, stand. Deviation =1.26); and Inconsistency and frequent changes of regulations and laws related to Tax audit practices (Mean =3.41, stand. Deviation stand. Deviation =1.16) were moderately affect the practice of the tax audit in the office.

Besides, though their rating results indicated moderate level of their influence on the practice of tax audit at branch office; the following challenges were identified as the least factors among the 14 items listed in the Table. They are: - Absences of Coordinated efforts among sector offices of the region engaged on Tax audit related responsibilities (Mean =2.32, stand. Deviation =1.08); Inadequacy of resource and facilities required for Tax Audit (Mean =3.08, stand. Deviation =1.26); and less skilled and low experienced employees (Mean =2.74, stand. Deviation =1.23). With regards to challenges that influence the practices of tax audit at Finfinne branch office of ORA; the interviewees were asked to identify the major once. Accordingly, they identified the following as the most critical challenges that have been influencing the success of tax audit practices at Finfinne branch office. a) Wrong perception of taxpayers on the estimation of tax amount; they perceived as it was inflated and unfair among similar businesses in the same proximity's; b) Taxpayers were considered illegal business practices as best way of doing business; c) Absences of reliable and up-to-date data and records keeping among taxpayers; d)Weak coordinated efforts among sector offices of the region engaged on tax audit related responsibilities; e)Negative attitude towards taxpaying practices among taxpayers; f)The culture of corruption between tax administration and taxpayers; and g)Taxpayers are not cooperative to give proper information for tax auditors.

## **5. Conclusions and Recommendations**

The practices of tax audit at Finfinnee Branch Office of ORA, the findings of this study indicated that, overall practices to achieve ultimate goals of tax audit was found at moderate level. The practices did not sufficiently contribute to the success of tax audit objectives in offering awareness creation for taxpayers and creating deterrent effects on non-compliant taxpayers. Moreover, tax auditors were not making sufficient efforts to create taxpayers' awareness that might help to increase voluntary compliance of taxpayers to mitigate future compliance risks at the Finfinne Branch Office. This indicated that, the current practices of tax audit at Finfinne Branch Office of ORA were not regarded as an important means of promoting excellences in tax administration and revenue collection of the branch.

In relation to the utilization of tax audit techniques, the findings of this study indicated that the practices of ORA at Finfinne Branch Office did not proportionally focus on all types of tax audit techniques. Particularly on sight survey of the current conditions of the taxpayer's business through physical checks of original transaction records; and an approach that uses information obtained through observation, discussion, documents obtained from either the taxpayer or other sources were not usually practiced as other tax audit techniques. Concerning planning and scheduling of tax audit at taxpayers' business firms, the findings indicated that, most of the time tax audit activities were done without schedules, unplanned and carried out arbitrarily. These confirmed that, the Branch Office fail to recall the fact that every work unit in any organization should have a set of actions that will be performed in the journey of achieving its goals and objectives.

Regarding frequency of tax audit to be carried-out at every business firm of taxpayers; the findings of this study identified as it was performed every one or two years. If the taxpayer's business is not audited regularly at the end of fiscal years, they may be exposed to a higher level of penalty and are not allowed to correct certain errors on-time. Likewise, large amounts of Government revenue may not be collected at the time they should be collected from the taxpayers. This internship may influence development practices of the country in general and the Region in particular. In general, the findings of this study indicated that the practices of tax audit at Finfinne Branch Office were poorly practiced. This may lead to the problems of deteriorating effect of tax collection and tax administration practices at all levels of the Region, which can result in difficulty to achieve the major objective of taxation in the Region and the Country at Large.

Regarding challenges that influence the practices of tax audit at Finfinne Branch Office of ORA; the findings of this study identified factors related with traditions of corruption; inflated estimation of tax amount on taxpayers; taxpayers were considered illegal business practices as best way of doing business; and Absences of reliable and up-to-date data and record keeping practices among taxpayers. Moreover, the results showed that, negative attitude towards taxpaying practices among taxpayers; and limited capacity of management and leadership on the part of the Branch Office were also affecting the practices of the tax audit in the branch. This indicated that tax audit practices at Finfinne Branch Office were associated with problems arising from multiple sources. From this one can conclude that there was not enough effort made to solve tax audit related problems and challenges on the part of officials and tax auditors at the Finfinne Branch Office of ORA. This strongly calls the attention of all concerned bodies to be aware of the consequences and make efforts to alleviate the problems. If not, it will continue affecting the branch Office of the Authority, the society, local and regional government and the country at large.

Based on major findings of this study and the conclusions made; the following recommendations were forwarded to improve the practices of tax audit at Finfinne Branch Office of ORB. ORA Finfinne branch office highly recommended to improve the capability of total audit staff to achieve required audit rate and audit quality that might improve overall compliance and future tax revenue mobilisation. There should be appropriate need assessment and employees should have been given training based on the gap identified. Auditors should have been given continuous training so that their skills are kept up-to-date and relevant. Moreover, ORA Finfinne branch office highly recommended to primarily focus on educating taxpayers and improving their voluntary compliance. The duty of taxpayer's awareness creation is unquestionable to increase voluntary compliance and to mitigate compliance risks. Consequently, the Finfinne Branch office tried to create tax awareness through effective communication methods like, mainstream media, social media, printed materials, and panel discussions with taxpayers.

Manual audit cases selection and tax audit favours' rent seeking and corruption in the tax administration in this regard The ORA Finfinne branch office recommended that to utilize risk-based tax audit and use automated selections for risk assessment purpose. And, the branch office can better perform audit activity in cooperation with the intelligence information whilst by using audit manual properly for uniformity & better efficiency. It is recommended that integrating sector offices' efforts and maximizing transparency among them to mitigate the challenges of traditions of corruption and absences of coordinated efforts among concerned sector offices of the region engaged on tax audit related responsibilities and to increase efficiency of tax audit practices at the branch office. Finally, ORA Finfinne branch office recommended Increasing accountability and an open and honest relationship with taxpayers for maintaining public trust and confidence in the performance of tax administration. Taxpayers would be able to expect a high degree of certainty in their dealings with branch office. This can only be achieved when tax laws, regulations, procedures, and administrative guidelines are made public, easily accessible, and applied in a consistent manner by avoiding unstable tax laws which creates confusion not only for taxpayers but also for tax auditors.

## 6. Future Research

Though the findings of this study identified major challenges that affect the practices of Tax Audit at Finfinne branch office of ORA, there may be other specific problems related to the implementation of Tax Audit not assessed through this study. So, to identify such factors and to take proper actions on time; it is advisable if further research is conducted at Branch Office.

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