

MEKELLE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF FINANCE AND INVESTMENT



**Assessment of Tax Audit practice and its Challenges: case study Ministry of
Revenue, Mekelle Branch**

Gibtsawit Bokure

ID: CBE/PE/367/07

SUMMATED TO Assefa Werede (PhD)

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ASSESSMENT OF TAX AUDIT PRACTICE AND IT'S CHALLENGES:
CASE STUDY OF MINISTRYREVENUE MEKELLE BRANCH
BY
GIBTSAWIT BOKURE
APPROVED BY BOARD OF EXAMINERS

Dean, Graduate studies

signature and date

Advisor signature and date

External Examiner

signature and date

Internal Examiner

signature and date

CERTIFICATION

I hereby declare that this thesis is my own work towards the MSc and that, to best of my knowledge, it contains no materials previously published by another person nor the material has been accepted for the award of any other degree of the university, except where due acknowledgment, have been made in the text.

DEDICATION

This work is dedicated to my parents and all those who supported me in diverse ways throughout the period of my studies

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The Almighty God, I do not know how I can state for all; I am heartily indebted to him with his mother Saint Marry, for his bright gifts throughout my life from the beginning wherever I go.

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ABSTRACT

This study tried to assess the practices and the challenges of tax audits with a selected Ministry of Revenue, Ministry of Revenue Mekelle Branch Office. For this end, intending to get the relevant data, this study considered only the audit department staff office and Mekelle city audited taxpayers as the population of the study. As the sources of data, the current study used both primary and secondary sources. To collect primary data, survey questionnaires were used as the methods of data collection. The questionnaires were distributed to 28 tax audit staff respondents, and out of those, 24 were returned. They were also distributed to 105 taxpayers' respondents; out of those 87 that were returned, the secondary data was from scholarly published studies, internet sources, journals, MOR published, and unpublished documents. The questionnaires were rated at a 5-point scale rate. To analyse the collected data, statistical analysis using SPSS 20 was applied. From the data analysis, it is revealed that comprehensive tax audit was a repetitively performed tax audit type. There is a well-established role of tax audit. The tax audit practice of the office has weaknesses in applying IT (information technology). The department applies statistical techniques and an automatic risk scoring system for its audit selection case. The primary purpose of the tax audit in the office is not ensuring tax compliance behaviour but increasing tax revenue collection. There is a problem in the supply of audit resources such as skilled and experienced tax auditors and an organized and suitable office structure. In addition, an inadequate number of auditors, a lack of skilled and qualified auditors, and the unwillingness of taxpayers to present necessary records were some challenges of tax auditing in the office. Based on these findings, it was recommended that the office should have skilled and qualified tax auditors through training, focus on ensuring tax compliance behaviour, and apply different tax audit types. Lastly, it is suggested that the office need to have continuous assessment of the auditor's efficiency and level of tax compliance behaviour enhanced every time.

Keywords: *Tax Audit, Tax Audit practice, Tax compliance*

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List of Abbreviation /Acronyms

ADBG African Development Bank Group

ERCA Ethiopian Revenues and Customs Authority

GDP Gross Domestic Product

GTP Gross Transaction Plane

MOR Ministry of Revenue

STATA Statistical Software for Data Science

OECD Organization for Economic Cooperation and Development

SDGs Sustainable Development Goals Plane

VAT Value Added Tax

CHAPTER ONE

1. INTRODUCTION

1.1 Back ground of the study

Tax is imposed free of charge where the taxpayers do not get service directly in exchange for what they paid in terms of tax. But rather, a service is provided for citizens in various areas, regardless of what taxpayers pay to the authority. Tax is imposed on citizens to finance government public expenditures (Clement and Kahoolawe, 2019). Taxation is a vital element for controlling the national income of a country around the world. It helps government to provide economic development, by reducing poverty and provide public services (Behar and Dejen, 2022).

According to Odd-Helge and Ingrid (2024) as a significant source of money for public services and community-benefiting programs, the tax system is a significant formal institution with a special place in the social contract between citizens and governments. It also offers a crucial starting point for investigating how individuals interact with institutions in various settings and how culture, beliefs, norms, and perceptions influence matters like tax compliance. For developing nations to meet the sustainable development goals, domestic revenue mobilization is essential. But in many nations, tax evasion is a serious problem.

According to Onoja&Lwarere (2015) taxpayers, regardless of economic status, are unwilling when it comes to the payment of tax liability which results in their evasion and avoidance of tax in many countries. The weak tax administration and unwillingness of taxpayers creates a tax gap. The tax gap refers to the discrepancy between the taxes that are actually collectible, resulting in non-compliance, although a portion of these taxes could be collected through effective enforcement and tax audit. Therefore, a strategically implemented tax audit program can serve as a valuable tool for governments to bridge the widening tax gap in developing nations around the world (Oyelade, Adeadebayo and Rosemary, 2021).

Even though taxes are the main source of revenue for any government of a nation, it is true that tax avoidance and evasion are determinant factor, in declining income utilization. Based on this, in Ethiopia tax avoidance and evasion are common problem, in tax collection process (Abate and Melak,2019). Ethiopia has made progress in increasing tax revenue collection over the past decade. On the other side, Ethiopia has a low-income country with nominal GDP per capita of about USD1,370 in 2023 from about USD150 in 2004, compared to Ghana's and Kenya's increase, respectively, from USD 405 to USD2,200 and USD 462 to USD2,099 over the same period.

However, despite Ethiopia's high economic growth record, tax revenues have not reached the 15 percent of GDP that developing countries require toward the SDGs. In fact, the tax-to-GDP ratio has been declining since the 2010s, from about 12.7 percent to about 7% in 2022/23 (ADBG, 2024). Therefore, for taxation to be effective in economic process, the level of tax compliance must improve for efficient tax administration.

Hence, a tax audit is one measurement tool for improving the level of compliance and increasing revenue. Tax audit activities have direct and indirect impacts. Regarding direct impact, tax audits can increase revenue by determining additional tax, interest, and fines from the audited taxpayers. The indirect impact is the deterrent effect that discourages future noncompliance among audited and non-audited taxpayers Kasper and Alm (2022). Therefore, tax auditing plays an invaluable role in both increasing government revenue and improving the compliance with taxpayers. In Ethiopia, the aim of tax audit policy and strategy is to support the delivery of voluntary compliance through a risk-based audit program. Therefore, the researcher intends to assess the tax audit practice and its challenges by collecting and analysing data from the tax audit staff and taxpayers of Mekelle taxpayers' office.

1.2 Statement of the problem

Different researchers have carried out studies on assessment of tax audit practices and its challenges in the country and out of the country. Researches prepared by Nakamba (2017), Nicholas (2021) and Henok (2017) stated that a well-structured tax audit practices could positively impact tax compliance and increases in revenue generation of the tax administration offices. On the other hand, the challenges are tax officers' ineffectiveness, unsafe audit workplace, lack of resource, lack of exercising tax audit types, absence of awareness creation to taxpayer and lack of SIGTAS utilization to the maximum level of the module.

The Ministry of Revenue Mekelle branch office serves investors whose annual turnover is above 70,000, 000.00 birr based on VAT amendment proclamation No. 1157/2019 article 3 a). Although, Ministry of Revenue 2016E.C final report shows that Mekelle branch planned to collect birr. 73 million from 182 files by tax audit, but the actual collected birr 37 million (principal, interest and penalty) from tax audit in 170 files, hence there is deficit birr 35 million performance. Thus, if tax evasions and avoidances happen in this branch, it has negative impacts on the government's revenue. To address these issues, an effective tax audit program should investigate, detect and prevent tax revenue loss, and to improve its tax administration on tax potential. Thus, the researcher believes that researches on this area will have an invaluable contribution in identifying weak areas and recommending possible solutions to the tax authority to achieve its objectives and to improve its tax

administration. In view of this, the researcher intends to assess the tax audit practice and its challenge in the Mekelle branch taxpayers and tax audit department.

1.3. Basic Research Question

To deal with the problem, the following research questions are forwarded to be addressed.

1. What are tax audit practices in MoR Mekelle branch?
2. What are the functions of tax audit in improving the compliance level of taxpayers MoR Mekelle branch?
3. What is a tax audit exercise in the reduction of tax avoidance and evasion in MoR Mekelle branch?
4. What are the challenges of tax audit practice in revenue generating in MoR Mekelle branch?

1.3. Objectives of the Study

To address the research questions, the following research objectives are set.

1.3.1. General Objective

The main objective of the study is to assess tax audit practice and its challenges in the case of the Ministry of Revenue Mekelle branch.

1.3.2. Specific Objectives of the Study

The specific objectives the study focus on the following

1. To evaluate tax audit practices.
2. To identify the function, of tax audit in improving the compliance level of taxpayers.
3. To assess how tax audits are exercised in the reduction of tax avoidance and tax evasion.
4. To examine the challenges of tax audit practice in revenue generating

1.4. Significance of the Study

The study is intended to identifying the existing practice and challenges posed to successful tax audit practice. Though provide information related to tax audit practice and its challenges for different stakeholders such as government and society. Although it provides information for policymakers to make legal amendments to improve the current tax administration in order to collect potential tax and improve voluntary compliance by making the tax laws simple and understandable for taxpayers.

1.5. Scope of the study

The research covers the Ministry of Revenue's Mekelle branch taxpayers, which targets only taxpayers who live in Mekell City (i.e., excludes taxpayers who are out of Mekell City). The data was from the Ministry of Revenue Mekelle branch, which audited taxpayers for the last five years, since 2020.

1.6. Structure of the study

The research is organized into five chapters. The second chapter is exclusively devoted to the review of related literature on the need for a theoretical review, conceptual review, and empirical studies about the assessment of tax audit practice and its challenges. Chapter three deals with research methodology, and chapter four demonstrates analysis and presentation of the findings of the study, the last chapter. Chapter five presents the conclusions drawn from the findings and the recommendations made to address the problems.

CHAPTER TWO:

LITERATURE REVIEW

2.1 Introduction

This section presents a brief review of existing theoretical and empirical of tax audit practices. The theoretical review of tax audit, the empirical evidence on tax audits, related issues and the knowledge gaps that motivate this study.

2.2 Theoretical Studies

2.2.1 Definition of Tax

A tax is a compulsory levy by government through its agencies on the income, consumption and capital of its subjects. These levies are made on personal income such as salaries, business profit, internal, dividend, discount or royalties to obtain revenue (Henok, 2017).

Taxation is the method by which governments impose mandatory fees on people or organizations, practically every nation in the world. Taxes are imposed, mainly to generate money for government spending, though they also have other uses. Taxes are the primary source of government funding in contemporary economies. To compare with other revenue sources, taxes are mandatory levies that are unreturned, meaning that they are typically not paid in return for a specific good or service, the sale of public property, or the issuance of public debt. Although taxes are ostensibly collected for the benefit of all taxpayers, each taxpayer's liability is unrelated to any particular benefit they may have received (Cox, Neumarkand McLure, 2024)

According to Ethiopian consultation, under the headings of "federal power of taxation" and "state power of taxation," the federal constitution establishes exclusive revenue sources. Central governments in Ethiopia, like those in the majority of federal nations, have comparatively larger revenue streams. Taxation powers of the federal government include: employment from the employees of the federal government and its public enterprises and international organizations, federal stamp duties, monopoly tax, value added tax, custom duties, taxes and other charges on imports and exports, excise taxes, national lottery, fees from licenses issued and services provided by organs of the federal government. This is in addition to the federal government's portion of natural resource taxes and royalties, which primarily relate to gold and natural gas. At the federal level, the federal parliament is in charge of collecting taxes that are owed to the federal government. On the other hand, the regional states have the authority to impose taxes on a variety of items, such as employment income from state government employees, agricultural taxes from farmers, value added

tax and excise taxes from state government-owned public enterprises, royalties from small mining operations, and taxes on individual traders, homes, and other property owned by private individuals or the regional government. State councils, which are the legislative arms of state governments, have the authority to impose taxes on those tax bases at the state level (Art. 51, 52(2), 96).

Tax Revenue

Tax revenues in developed countries have a significant impact on economic growth, which is clearly reflected in the services provided by these countries. The contribution of taxation to all economies around the world cannot be undermined. Apart from the revenue function it performs for the government, it is also used to help the country achieve its macroeconomic goals in terms of fiscal and monetary policy (Confidence and Tovie, 2022).

Similarly, tax revenue is the government's most effective tool for shifting people's purchasing power to the government to incur for public spending. Most citizens are unwilling to pay their taxes on time, in full, and with the correct amount because of a negative attitude. Like many developing nations, Ethiopia struggles to increase revenue to the level needed to support economic growth through various tax reforms aimed at improving revenue production, increasing the effectiveness of tax administration, and ensuring tax system equity (Kanbiro, 2018).

Tax administration carries out tax audits to verify that the taxpayer has complied with provisions of tax legislation. The significance of an audit program in modern tax administration extends beyond just validating a taxpayer's reported responsibilities and uncovering inconsistencies between a taxpayer's declarations and supporting documents. Because audits can significantly contribute to enhancing tax administration and overall taxpayer compliance by influencing taxpayer behaviours, as taxes represent the most reliable revenue source (Melat,2016).

2.1.2 Definition Tax Audit

Tax audits are a link between taxpayers and the taxing authority. Exposing tax evaders and educating those who lack knowledge about tax laws could also close the knowledge gap. Therefore, a tax authority's efficient and effective tax audit structure could ensure maximum tax collection and raise public awareness of the current tax laws. An efficient tax audit program, a proven case selection process, and highly qualified auditors are required to fulfil this requirement. (Bahar and Dejen,2022).

Generally, according to MoR Audit manual (2019), it is all about checking. Searching whether the taxpayer has complied with tax legislation and obligations accordingly, audit procedures must be planned in manner that seeks to assess the level of taxpayer compliance with the tax laws.

As a rule, stated that a tax audit is an inspection by auditors to determine whether a taxpayer have correctly reported and assessed their tax obligations. However, the role of an audit program in a modern tax administration must extend beyond simply verifying a taxpayer's reported obligations and detection of discrepancies between a taxpayer's declaration and supporting documentation (Biber, 2010).

According to (OECD 2016) a tax audit is an examination of whether a taxpayer has correctly assessed and reported his/her tax liability and fulfilled other obligations. Tax audits are often more detailed and extensive than other types of examination, such as general desk checks, compliance visits/reviews, or document matching programmers. There are, of course, exceptions to this rule. Conditions and approaches vary from country to country. An audit will examine the issues seen as most significant to achieving an accurate assessment of a taxpayer's tax liability. Typically, these issues will include any indications of significant unreported income (for example, as may be suggested by a very low ratio of net/gross business income ratio computed from a taxpayer's return) or potentially over-claimed deduction items that may be apparent from an examination of a taxpayer's tax return and other information.

2.1.3 The Role of Audit

The role of audit extends beyond verification. It is generally accepted that a tax audit is an examination to determine whether a taxpayer has correctly reported and assessed their tax obligations. However, the role of an audit program in a modern tax administration must extend beyond merely verifying a taxpayer's reported obligations and detection of discrepancies between a taxpayer's declaration and supporting documentation. A well-managed audit program plays a major role in managing compliance. An effective audit program will have significantly wider impacts than just raising revenue directly from audit activities. By selecting the highest risk cases, efficiently detecting non-compliance, applying appropriate sanctions, and publicizing results of audit activity (either generally or specifically), taxpayers are put on notice that attempting to avoid tax will result in a high likelihood of detection and imposition of significant sanctions. Thereby, a well-planned audit program can provide the administration with significant leverage across the community rather than only impacting on the taxpayer selected for audit and collecting the tax that should have been paid in the first place. Additionally, a tax system that is perceived to be fair and equitable by punishing taxpayers who do not comply builds community confidence and encourages compliance

from the broader population as compliant taxpayers support the administration's efforts to deal with non-compliance (Biber,2010).

2.1.4 Audit Programme

The end product of the preliminary planning process is a series of audit programmes on different aspects of the audit. The audit plan is a base for the preparation of the audit programme. An audit programme can be defined as a written plan containing detail of auditing work to be performed. It specifies the procedures to be followed in meeting the audit objectives. Transactions performed by organizations should fulfil the following audit assertions:

Completeness - all transactions relevant to the year have been recorded.

Occurrence - the recorded transactions properly occurred and were relevant to the budget year.

Measurement - the recorded transactions have been correctly valued, properly calculated or measured in accordance with established accounting policies, laws and regulations on an acceptable and consistent basis.

Regularity - the recorded transactions are in accordance with appropriate laws, regulations and other specific authorities.

Disclosure - the recorded transactions have been properly classified in to appropriate budget headings.

Existence - all recorded assets and liabilities exist.

Valuation - the assets, inventories, and work-in-progress are recorded at cost and depreciation, bad debts, etc. are recorded consistently with due care according to a present accounting principle and

Ownership - the assets are owned by the audited body; the liabilities are properly those of the audited body and both arise solely from regular activities (Paulos,2018).

2.1.5 Types of tax audit

According to Ministry of Revenue audit manual (2019), tax audits typically concentrate on areas where the amount of tax paid and/or payable is at high risk. The extent of a tax audit will frequently change based on the particular circumstances surrounding a taxpayer. But it's crucial to keep in mind that an audit's main goal is to ascertain the precise amount of taxes that need to be paid. For both taxpayers and tax authorities, the aforementioned goal is crucial because it helps guarantee that taxpayers trust the fairness of the audit process, which could lead to an audit that increases or decreases a taxpayer's tax liability

The types of audits are defined by the three major factors, according to (ERCA, 2014)

- a) The audit scope and intensity
- b) The period(s) under examination
- c) The location of the audit activity

The major types of audits according to ERCA and Biber, (2010) are described below: -

1. Comprehensive audit: - is all-encompassing in scope and entails an in-depth examination of all information relevant to the calculation of a taxpayer's tax liability for all tax types for a given period. Given the broad scope, a comprehensive audit is typically costly to undertake in terms of time and resources, plus it reduces coverage of the taxpayer population. A comprehensive audit is classified into very complex, complex, and simple. This classification will depend on a number of factors ranging from size, group, trade or profession, volume of records or transactions, nature of business, to location. In practice, the scope and nature of any comprehensive audit activity to be undertaken will depend on the available evidence pointing to the likely risks of non-compliance and a taxpayer's history. A comprehensive audit may also be classified and justified as complex or very complex because of the taxpayer's financial and/or business activities.

2. Issue audit: - This is a limited-scope audit that may be confined to specific issues in a tax return and/or a particular tax type. The objective is to examine key potential risk areas of non-compliance. This type of audit is recommended because it consumes relatively fewer resources than comprehensive audits and allows for increased coverage of the taxpayer population. Also, the audit will normally focus on a single tax type, period, or item. Where a field issue audit escalates the case into a comprehensive audit, the team coordinator's concurrence must be sought, and the procedures for comprehensive audits adhered to by issue audits may be conducted either on the desk or in the field: -

2.1 desk issue audit: - This can be conducted in relation to specific issue(s) of a taxpayer or enterprise when the auditor is confident that all the necessary information can be ascertained by conducting an examination in the office. All the required or relevant information or data may be accessed from internal sources or official reference without the need to contact the taxpayer.

2.2 field issue audit: - This is the escalation of a desk audit into a field activity or exercise. It is important to remember that the audit is limited to key issues of compliance or to a tax type or period. A field issue audit is commonly used in examining whether a taxpayer has met his/her obligation in respect of VAT and excise tax, withholding tax, or income tax normally for a specified tax period. Attention should always be taken to guard against being derailed and thus progressing field issue audits into comprehensive audits. The objective of the field issue audit is to focus on a shorter period for a single tax item for a faster and more effective outcome. This audit type should be the commonest and most effective audit type to be utilized for faster results.

3. Desk audit: -is used as preliminary examination of declarations analyzing accuracy, completeness, and ratios and crosschecking information to determine if further audit or investigation is warranted.

4. Special audit projects: -audits can be organized as a separate project for a targeted or specific group of tax payers in a given period to verify compliance in the sector. These audit projects may cover an industry, trade, profession or a line of business. This will consist of specific checks and are used to address a particular risk or to establish the degree of non-compliance in a particular sector, industry or trade. To be effective audit type, all taxpayers in the targeted sector must be considered and handled with in the shortest time possible.

5. Advisory visit audits: -all registered tax payers or business need to be visited with the aim of offering advice on tax obligation and the taxpayer rights, and any other development relevant to the tax system and administration. It is highly recommended that auditors carry out these audits to keep abreast with compliance trends of their taxpayers and offer timely advice so as to improve compliance. These audits are expected to be spontaneous and hence should not take more than a day.

6. Refund audits: -this is a verification of a taxpayer's claim for a tax refund prior to processing the refund. The predominant claim for refund is vat and/or withholding which is submitted monthly.

7. Investigation audit: -involve the most serious cases of non-compliance with criminal implications. Require special skills in investigation and evidentiary requirements as they often involve seizure of records, taking testimonies from witness and preparing briefs for courts.

8. De-registration audits: -in order to establish outstanding obligations or liabilities, de-registration audit will be conducted for all reported cases of cessation of business, winding up or uncertainty. The audit will focus on determining taxes due and any other pertinent issues. The objective of deregistration audit is to ensure orderly exit from the tax register with the attendant obligations and liabilities sorted out.

2.1.6 Tax Audit Effectiveness

An effective audit program will have significantly wider impacts than just raising revenue directly from audit activities. By selecting the highest risk cases, efficiently detecting non-compliance, applying appropriate sanctions, and publicizing results of audit activity (either generally or specifically), taxpayers are put on notice that attempting to avoid tax will result in a high likelihood of detection and imposition of significant sanctions. Thereby, a well-planned audit program can provide the administration with significant leverage across the community rather than only impacting on the taxpayer selected for audit and collecting the tax that should have been paid in the first place. Additionally, a tax system that is perceived to be fair and equitable by punishing taxpayers who do not comply builds community confidence and encourages compliance from the broader population as compliant taxpayers support the administration's efforts to deal with non-compliance.

Thus, characteristics of effective audit plans are:

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

The impact of an effective audit should be seen in terms of the following effects:

- **Corrective** – making adjustments to rectify instances of non-compliance.
- **Deterrent** – influencing the behaviour of the audited taxpayer or group of taxpayers to be compliant in future.
- **Preventative** – persuading the broader community to comply.

As well as detecting and addressing non-compliance, audit can provide valuable support in the following areas:

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

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

- **Law clarification and education.** The audit program also plays an important part in clarifying the law and educating taxpayers on appropriate compliance measures, such as legal filing requirements, deductibility of expenses, and improved record keeping. As well as providing direct guidance to taxpayers during audit activity, the audit program should refer common areas of non-compliance to the taxpayer services program managers so that they can be addressed in wider taxpayer education initiatives (Biber, 2010)

2.1.7 The Roles of the Tax Audit Program

According to Forum on Tax Administration's Compliance Sub-group, Strengthening Tax Audit Capabilities: General Principles and Approaches, 16 October 2006, the tax audit program of a revenue body performs a number of important roles that effectively carries out & can make a significant contribution to improved administration of the tax system. These roles are described briefly hereunder:

- **Promote voluntary compliance:** The primary role of the audit program is to promote voluntary compliance by taxpayers with the tax laws. It seeks to achieve this by reminding taxpayers of the risks of noncompliance and by engendering confidence in the broader community that serious abuses of the tax law will be detected and appropriately penalized.
- **Detect non-compliance at the individual taxpayer level:** By concentrating on major areas of risk (e.g., unreported cash income) and those individual taxpayers most likely to be evading their responsibilities, audits may bring to light significant understatements of tax liabilities, and additional tax revenue collections.
- **Gather information on the "health" of the tax system (including patterns of taxpayers' compliance behaviour):** The results of normal audit activity may provide information on the general well-being of the tax system. Audits conducted on a random basis can assist overall revenue administration by gathering critical information required to form judgments on overall levels of tax compliance, that over time can be used to identify trends in overall organizational effectiveness and to gather more precise information that can be used to

inform decision-making on future compliance improvement strategies, to refine automated risk-based case selection processes, and even support changes to tax legislation.

- Gather intelligence: Audits may bring to light information on evasion and avoidance schemes involving large numbers of taxpayers that can be used to increase major counter-abuse projects.
- Educate taxpayers: Audits can assist clarify the application of the law for individual taxpayers and to identify improvements required to recordkeeping and thus may contribute to improved compliance by taxpayers in the future.
- Identify areas of the law that require clarification: Audits may bring to light areas of the tax law that are causing confusion and problems to large numbers of taxpayers and thus require further efforts by the revenue body to clarify the laws' requirements and/or to better educate taxpayers on what they must do to comply into the future. Given the broad range of roles to be performed a revenue body's audit program typically entails the largest allocation of a revenue body's total staff resources. From this perspective alone, the audit program represents a sizeable strategic investment that dictates the need for sound management policies and practices.

According to forum on Tax Administration's Compliance Sub-group, Strengthening Tax Audit Capabilities: General Principles and Approaches (October 2006), the success of any audit programme has a direct relationship with the quality of the individual audits that comprise that programme. There are a number of key principles that apply to quality audits which are visible in the audit programmes already in place in OECD administrations, regardless of jurisdiction or revenue type. Following these principles is not intended to take away or limit the authorities granted through legal or procedural guidelines. Rather they are descriptive of the manner in which an audit conducted should be;

- Accurate - They identify non-compliance, entail a correct interpretation of the law, and lead to a correct assessment of liability.
- Efficient - They minimize the compliance burden on the taxpayer and minimize the use of the revenue body's resources in terms of the outcome delivered.
- Objective - All decisions made are based on facts.
- Transparent - As issues are developed and fully documented in the work papers, these developments are generally discussed with the taxpayer during the course of the audit.

- Fair - Technically accurate and procedurally correct in accordance with domestic laws and policies.
- Complete - The audit has a defined start and end point and the taxpayer knows when the audit process is complete.
- Defensible - The decisions made in the audit and the actual audit process can stand up to external scrutiny.
- Consistent - The same taxpayer circumstances should produce the same result regardless of which auditor undertakes the audit.

2.1.8 Audit Case Selection Method

According to forum on Tax Administration's Compliance Sub-group, Strengthening Tax Audit Capabilities: General Principles and Approaches (October 2006) the first key to successful audit is in the case selection methodology. Case selection through the use of risk management techniques is necessary to ensure that the audit programme 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. This subject is dealt with in some detail in companion papers to this document; the second of which also gives detailed case studies of some case selection frameworks in place. Pre-contact analysis is considered an essential part of the audit process. Time invested here can pay dividends in terms of a reduced burden on taxpayers and reduced compliance resources expended during the audit. As the name suggests, this activity takes place before the audit begins, and where a thoroughgoing risk management process is in place, is an essential part of the risk analysis and prioritisation process. In other circumstances the activity will be carried out by the auditor in preparing the audit plan. One element of many case selection procedures that usually sits within audits teams is the manual review or screening of tax returns. There are a number of key facets in this process.

- Screening needs to be supported by appropriate training and guidance regimes, and to be fully integrated with the risk management process. The screening role can be carried out in local audit teams or in specialised (and centralised) units.
 - The process is monitored to assure accuracy and the proper application of guidance. There are two general techniques:
 - Managerial Review is a centralised screening procedure in which, supervisory official review the work of the employees in the centralised unit. If the screening takes place at the local office, the auditor's manager conducts the quality review.
 - Secondary Review is a centralised review function, which is responsible for all case processing activities. Once a no-audit decision is made, a sample of no audit cases is forwarded to the central

review function for quality assessment. This activity may also be conducted as a post closed case review.

- An essential part of any such screening review is a review of prior audit history of the taxpayer, looking for evidence of previous issues with tax compliance, or conversely confirmation of a previously blameless compliance history.
- Where IT-based initial selection procedures are in use, the physical screening is usually a second order check, to validate the decision to audit or to give evidence supporting a decision not to audit.
- Written documentation of a no-audit decision is usually required.

The level of other pre-contact work will largely depend on the complexity of the affairs of the customer concerned, and the tax risks identified during risk assessment.

ERCA is required to audit some or all its taxpayers to verify if customers are paying the right tax at the right time. Conducting audits involves costs to the tax department as well as to the taxpayer. To make audit more efficient and effective and to maximize resources, audit selection based on establish risk criteria will be used to select a particular taxpayer for audit. ERCA develop automated risk-based tax-auditing system. (ERCA, 2010).

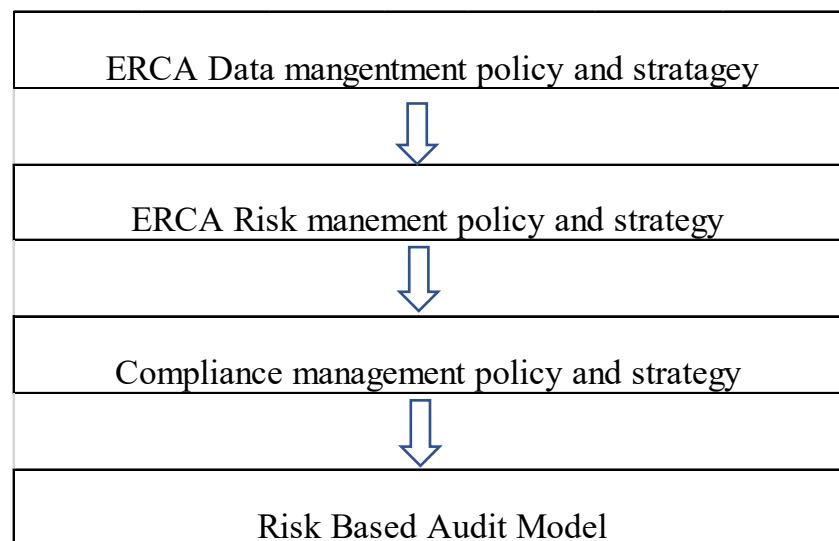


Figure 2.1: The Risk Based Audit Model

Source: ERCA (2010)

compliance risk management approach is a structured approach to identifying risks; analysing and assigning priorities to the risks identified according to the likeliness of the risk occurring, the potential impact of the risk; developing tailored responses to mitigate the risk and evaluating the impact of measures taken. Once the identified risks are prioritized and decisions made about which of the prioritized risks will be selected for further investigation. A systematic process for identifying,

analysing, evaluating and treating risks to maximize outcomes in keeping with Ministry of Revenue's mandate and operations (Ministry of Revenues Compliance Risk Management Strategy, 2019).

2.1.9 Examination Techniques

According to (OECD, 2006) examination techniques mean, an auditor will apply various techniques to examine the books and records behind a return. These will vary with the customer and the tax regime concerned. Broadly they will adhere to a few key principles: 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.

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.

Field examination: Field examinations are also utilized as opportunities for gathering information on significant events such as (i) backdoor trade, (ii) disguised transaction, (iii) shift of investments and (iv) other data concerning transactions regarded by the auditor in charge as having potential linkage with discovery of irregularities. They also include on-sight survey of the current conditions of the taxpayer's business through on-the-spot physical checks of original transaction records and vouchers; assets and liabilities such as cash, accounts receivable, inventory assets, and accounts payable; and other contents of business.

Records Examination - the main approaches to detect false accounting include the examination of books and documents conducted at the taxpayer's business office or branches, counterpart examinations and examination of savings and deposit accounts. Examples include:

- Cross-checking purchase and sales invoice to look for the possibility of off record sales;
- Cross-checking declared sales with money deposited into bank accounts to identify indications of diverted income;

- Cross-checking appointment or order books with sales invoices to look for the possibility of off-record sales; and
- Checking purchases and sales invoices for any information that might indicate forms of ancillary income.

Counterpart examination: It is an examination performed based on third party information where warranted. As 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; and
- Matching foreign source income.

2.1.10 Tax compliance

A taxpayer is obligated to report tax return at specified period of time based on tax rule. Tax compliance defined as a person's how is filling tax form, declaring all taxable income accurately and paying all payable taxes within the stipulated period without having to wait for follow-up action from the authority. Taxpayer need to prepare all the relevant information in the tax form within the period given and the tax form must report accurate tax liability in accordance with the needs of laws, regulations and court judgments (Sadia, Usman, Sonia Sattar and Jehanger,2013).

2.1.11 Tax avoidance and tax evasion

According to GIZ Sector Programme Public Finance, Administrative Reform (2010)-tax evasion is a conscious decision made by the taxpayer to intentionally avoid paying the tax that is owed. This is considered as a criminal offense committed by the taxpayer. The appropriate tax authority may take the necessary actions to recover the tax and impose penalties on the taxpayer if they are found guilty. Tax evasion can be partial or total, and the extent of its occurrence differs from one company to another. Partial evasion happens when a company intentionally reports lower profits for tax purposes, while total evasion occurs when a company that is legally obligated to pay taxes deliberately avoids registering its name in the tax roll.

Tax Avoidance: -tax avoidance occurs within the legal framework of the tax system when people or businesses take advantage of the tax code and "loopholes," that is, engage in legal activities that contradict the goals of the tax legislation. Typically, exceptional actions taken with the express intent

of lowering tax obligations are included in tax avoidance. Strategic tax planning, which involves organizing financial matters to reduce tax obligations by, for instance, utilizing tax credits and deductions, is a form of tax avoidance

The tax gap refers to the disparity between the revenue that would theoretically be gathered under perfect tax enforcement and the actual amount collected, known as the revenue gap. A strategy aimed at narrowing the tax gap focuses on addressing tax evasion and avoidance. Even if perfect enforcement were possible, which it is not, attempting to completely eliminate the tax gap would be ineffective since the costs involved in identifying each individual tax evader would far exceed the additional tax revenue gained.

Reasons for tax evasion and tax avoidance: - There are various reasons for tax evasion and tax avoidance. In order to develop methods and instruments for fighting tax evasion and avoidance, it is important to foremost establish a broad understanding of the different reasons underlying these problems. These reasons can be filed in two categories. The first category comprises factors that negatively affect taxpayers' compliance with tax legislation. These factors can be subsumed either contributing to a low willingness to pay taxes (low tax morale) or to high costs to comply with tax laws. The second category contains reasons for the low ability of tax administration and fiscal courts to enforce tax liabilities. These factors can be summarized as resulting from insufficiencies in the administration and collection of taxes as well as weak capacity in auditing and monitoring tax payments which limit the possibility to detect and prosecute violators.

2.1.12 Information Technology in the Ethiopian Tax Administration

ERCA has recognized that in modern tax administration, it is necessary to computerize the tax collection procedure. On 24th February 2004; the Federal Inland Revenue Authority (legacy department of ERCA) announced the development of new software which would be used to collect information through the standard integrated Government Tax Administration System (SIGTAS). SIGTAS is an integrated package with all modules necessary to manage all taxes and licenses including a risk selectivity module, it provides management tools to track amounts assessed, collected, and outstanding amounts including aging of arrears (ERCA,2010).

2.2 Empirical Literature Review

A number of empirical studies examined on assessment of tax audit practice and its challenges. For instance, Nyakamba (2014), Olaoye et al. (2019), Nicholas K. (2021), Henok (2017), Birhanu (2018) and Belay, T. (2018) has been taken. A brief review of each of these studies is presented in the following discussions.

Nyakamba D (2014) studied the effect of tax audit on revenue collection (case of Kenya revenue authority). The result of the study showed that tax audit is directly related to revenue collection. All the tax audits are important because they add something to revenue and thus should be encouraged as it assists the government in collecting appropriate tax revenue necessary for budget, maintaining economic and financial order and stability, to ensure that satisfactory returns are submitted by the tax payers, to organize the degree of tax avoidance and tax evasion, to ensure strict compliance with tax laws by tax payers, to improve the degree of voluntary compliance by tax payers and to ensure that the amount due is collected and remitted to government.

Olaoye et al. (2019) The studied effects of tax audit on tax compliance and remittance of tax revenue (case of Ekiti State) The paper concludes that tax audit will bring that tax compliance and remittance through desk audit, field audit, back duty audit, and registration audit, tax compliance and remittance will increase, thereby increasing the revenue pool of the State.

Nicholas (2021) Studied factor that affect tax audit effectiveness (case study of Uganda revenue authority)concludes that Well-structured tax audit program is vital to ensure the fiscal health of the country, and sustain the health of the tax system by reducing tax gap through voluntary compliance improvement and additional tax collections. Further, it might provide valuable support in identifying areas of the tax law that require clarification or addressing deficiencies in the law, and to influence compliance across the broader taxpayer community at all levels.

Henok (2017) studied assessment of tax audit practice and its challenges (case of large tax payer office ERCA) Auditor of the branch are not effective and efficient in their tax audit program in relation to being in competent. In addition to this the branch practice only comprehensive tax audit type the all-tax payers without considering risk level of taxpayer, and lack of continuous and advanced taxpayer training. Tax audit practice has limitation in playing significant relation in reducing of tax avoidance and evasion. The other one is due to lack of knowledge and commitment and very slow network Auditor are not utilizing SIGTAS to the maximum level of modules.

Birhanu (2018) studied assessment of tax audit practice (case of Addis Ketema Sub-City). The result of the study showed that audit program is unchanged and only comprehensive audit type is used whatever the case is simple or complex. At the time of tax fraud indicted and return decreased from the previous return taxpayer repetitively audited. Due to this action unreasonable consumption of audit resources increase and corruption might also increase. There is no segmentation approach because of low customer satisfaction, both compliance taxpayer cost and tax administration cost increases. Regarding audit staff, there is no competency assessment model, less attention that given

to continuous upgrading the capability and knowledge of staff and a particular position only gains resource at once.

Belay (2018) studied assessment of tax audit practice and its Challenges (case of Adama Revenue and Custom Office) The result of the study showed that there is frequently performing comprehensive tax audit type, no intelligence input to support tax audit works and for audit case selection, scientific and statistical techniques are not applied as expected. In addition, all this main reason for audit work in the office is collecting extra revenue rather than ensuring tax compliance behaviour. Like of tax understanding and awareness tax laws by taxpayers, there is less skilled and low number of auditors and shortage of significance resource are the major challenges of tax audit in the office.

2.3 Conclusion to the literature review and knowledge gap

Therefore, even if researches have been conducted on the area of tax audit practices in Ethiopia, the researcher believes that it is not still fully addressed and can be added more on the area. The researcher believes that researches must be done in the branch office because the branch office serves investors whose annual turnover is above 70,000, 000.00 birr and the country collect large amount of tax revenue from this branch. Although, Ministry of Revenue 2016 E.C final report shows that Mekelle branch planned to collect birr. 73 million from 182 files by tax audit, but the actual collected birr 37 million (principal, interest and penalty) from tax audit in 170 files, hence there is deficit birr 35 million performance. Thus, tax evasion and avoidance might be significantly high if it occurs, so the research may indicate weak area that needs corrective measure and to improve the tax administration of the branch office.

2.4 Conceptual Framework

The conceptual framework of the study to assess and identify the challenges of tax audit practices in case of Ministry of revenue Mekelle branch affected by several factor such as tax audit type, Skilled and qualified access and of tax officials, Effective rules and regulations, Enforcement ability of law Facilitative tools to summarize the frame work of the study, dependent and independent variables; the study illustrate by figure as below:

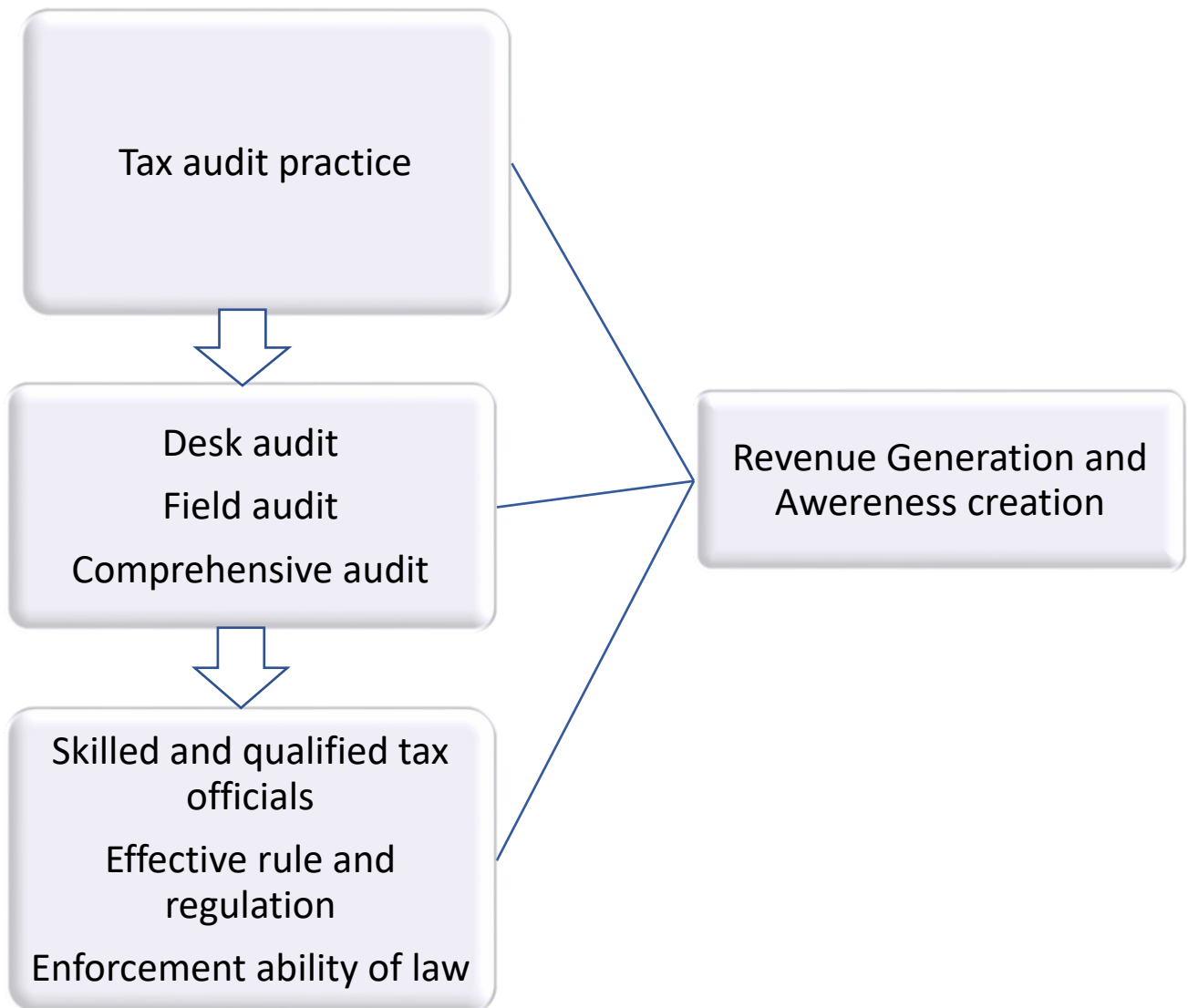


Figure 2.2 Conceptual frame works

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 Research Methodology

This chapter presented the research methodology to be employed for data gathering as well as the relevant statistical analytical tools 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.

3.1.1 Description of the Study Area

The study was conducted in Mekelle city, the capital city of Tigray region, Northern Ethiopia. It is located around 780 kilo meters north to Addis Ababa, at a latitude and longitude of 13°29'N 39°28'E respectively, with an elevation of 2084 meters above sea level. The city was divided in to seven sub-cities. The number of population was estimated to be 510, 271, (2015) [Wikipedia](#).

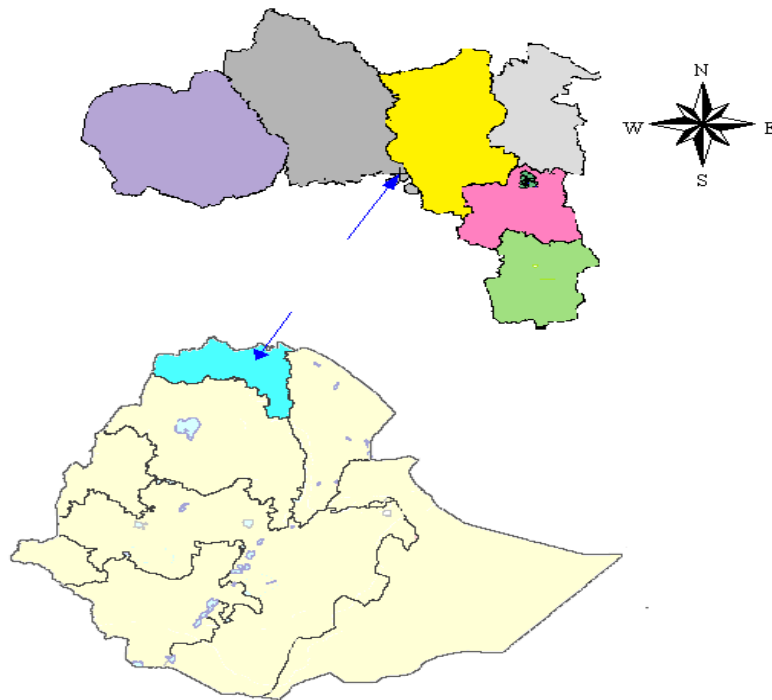


Figure3.1: Location Map of Tigray and Ethiopia

3.2. Research Design

A research design is the strategy that guides researchers on how to collect, analyse and interpret observations. A descriptive research design was employed as the research design for this study so that it could achieve the intended objectives. The reason behind using a descriptive research design is that the study is interested in describing the situation under the topic in the research area. In addition, the researcher employed a quantitative research approach for this study. The researcher used quantitative data. This means that to assess opinions or attitudes quantitatively.

3.3. Sources of Data

3.3.1. Primary Source of Data :- Field survey is the central and important source of collecting primary data. Since only secondary data rarely solves a given research problem, it is important to have additional information from primary sources such as primary data. In this study, primary data was collected from the employees and tax audit team leaders and taxpayers through questionnaires.

3.3.2. Secondary Source of Data: - Secondary data is data which has been collected by individuals or agencies for their purposes other than the particular research study. Since the primary data is not enough to address the research problem, the researcher also focuses on secondary data in the process of data collection as additional information. In these study scholarly published studies, internet sources, journals, MOR published and unpublished documents and publications were reviewed as secondary data sources.

3.4. Tools of Data Collection

3.4.1. Questionnaires are used to collect necessary data from the sample respondents. To do this, both open-ended and close-ended questionnaires were prepared and distributed to both tax audit department employees and taxpayers. The questionnaires were prepared in English for tax audit department employees and for taxpayers who are a mix of educated and non-educated. The questionnaires are first prepared in the English version and later translated into Tigrigna. The questionnaire was pre-listed and necessarily adjustments were made accordingly.

3.5. Target Population and Sampling Method

The data was collected from different groups, such as employees and taxpayers that have long-term experience involved in the Ministry of Revenue Mekelle branch. The researcher selected non-probability sampling method and used convenience sampling to collect the desired data from the population size, sampling techniques were applied. Overall, the Ministry of Revenue Mekelle branch has 2630 active taxpayers and 229 employees with two sub offices in Axum and Shire (Mekelle branch database 2016 and human resources department). From total employees, 28 are tax audit staff members, who are organized by 1 process owner, 4 tax audit team coordinators, and 11 senior auditors; 9 auditors and 2 junior auditors were available in the branch office. Since the number of

auditors was small, the study assumed the data of all tax auditors taking a sample, no need to take a sample from the frame, because the sample size is equal to the population, which is enables us to make appropriate generalizations about the overall population. To select the sample size of taxpayers, the researcher focused only on Mekelle city audited taxpayers. Mekelle City has 1623 active taxpayers out of those 703 taxpayers are audited taxpayers, from 2020 up to 2024. With a population size of 703 audited taxpayers, the sample to be taken for this study was determined based on the Yamane formula (1967). To conduct study on personal judgment of the researcher being at 90% confidence level and a sampling error of 10 % according Yamane formula (1967), the formula Shown below.

Yamane formula (1967); $n = \frac{N}{1 + N(e)^2}$ the sample size

Where: -

- n = required sample size
- N = population size
- e = margin of error (expressed as a decimal)

$$n = \frac{703}{1 + 703(0.1)^2} \quad n = 105$$

Where: -

- n = required sample size
- N = 703
- e = 10% or 0.1

The total sample size of the tax payers was 105 residents of Mekelle city audited taxpayers.

3.6. Method of Data Analysis and Presentation

Both primary and secondary data were presented and analysed using statistical tools. Tables and charts were employed to facilitate the interpretation of the result of the data analysed. In this study, the quantitative data was analysed against various theories that helped in providing reasonable and acceptable explanations, thereby enhancing the ability to generalize the research result to the wider population. In addition, quantitative data is the data that has been collected and put into a numeric form, so that it can be counted. Analysing quantitative data involves the use of descriptive statistics such as tables and percentages. This is done after the collected data is fed into SPSS version 20 to make the data ready for processing through figures and tables.

CHAPTER FOUR

4. DATA ANALYSIS AND RESULTS

4.1 Introduction

The study was designed to assess tax audit practice and its challenges in the Ministry of revenue Mekelle branch. The results obtained based on the data collected from respondents are presented and discussed in this chapter. It shows general characteristics of the respondents, the response rate and findings of the study. The questionnaires were distributed to ministry of revenue Mekelle branch office taxpayers and tax audit employees' respondents. The questionnaires distributed to the taxpayers were prepared in the Tigrigna version to avoid language barriers and response biases minimized due to misunderstanding.

4.2 Demographic Data

In the following tables, charts, information related to sample respondents', both in response to rate, age and demographic data such as gender, age, educational background, work experience and current occupation of tax audit staff and the business sector of taxpayers were presented and analysed. To get this information, respondents were provided with structured questions.

Table 4.1: Demographic data

		Population Size			
		Tax Payers (105)		Tax Audit staffs (28)	
		Frequency	Percent	Frequency	Percent
Response rate (Return)		87	82.9	24	85.71
Gender	Male	63	72.41	9	37.50
	Female	24	27.59	15	62.50
	Total	87	100	24	100
Age	<25	5	5.75		
	26-35Year	31	35.63	14	58.33
	36-50 Year	30	34.48	10	41.67
	>51Year	21	24.14		
	Total	87	100	24	100
Level of Education	12and below				
	Certificate	4	4.60		

	Diploma	30	34.48		
	Degree	53	60.92	19	79.17
	MAS/Msc			5	20.83
	Total	87	100	24	100
Field of study	Accounting and Finance			18	75
				5	20.83
	Management			1	4.17
	Total			24	100
Experience	< 2 years				
	2-5 Years			5	20.83
	More the five Year			19	79.17
	Total			24	100

Source: field Survey Result 2024

The above table 4.1 shows the population size of taxpayers and tax audit staff response rate, gender, age, level of education and experience of tax audit staff. These points are discussed below:

The response rate; - 105 questionnaires distributed to MOR Mekelle branch taxpayers and 87 were returned, representing 82.9 percent and from 28 questionnaires distributed to the tax audit staff, 24 questionnaires were returned and represented 85.71 percent.

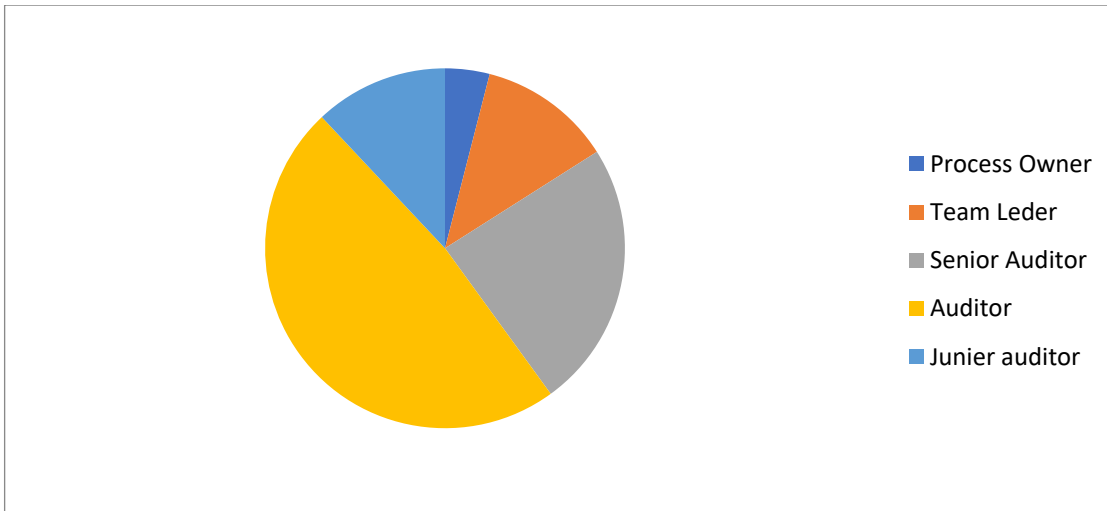
Gender: out of the 87 taxpayers' respondents are 63(72.41%) male and the remaining 24(27.59%) respondents 'are female taxpayers. And 9 (37.50%) of the tax audit staff respondents are male and 15(62.50%) are female; the number of male respondents is much higher than female respondents.

Age: out of the 24 tax audit staff, respondents are 14 (58.33%) respondents' age ranges from 25 to 35 years old and the remaining 10(41.67%) respondents' age ranges from 36 to 50 years and the age of taxpayers` 38(43.68%) respondents age is 25–35 years old, 33(37.93%) taxpayers are 36–50 years and 16(18.39%) are above 51 years old. In summary, the majority of the tax audit staff` ages lie between 25 and 35 years, and they are young and this can be an opportunity for the tax authorities if managed properly.

Level of Education: -Out of 87 respondents, (4.60%) are certificate holders, 30(34.4%) have diplomas, 53(60.92%) have a BA/B.Sc. degree, and out of 24 tax audit respondents 19(79.17%) have B. A Degree 5(20.83%) respondents has MA or M.Sc. Degree in different fields of study. All the auditors/officials have a good educational background, and that has positive implications for improving the tax administration. The impact of educational background has both positive and negative impacts on the compliance levels of taxpayers.

Work experience: -in the current position of tax auditors 5(20.83%) respondents have 2-5 years and the remaining 19(79.17%) have more than 5 years' work experience. well experienced tax auditors/officials can tackle tax avoidance and evasions committed by non-compliant taxpayers in a better way.

Figure 4.1 Tax audit staff respondents' position /current job occupation



Source: field survey result 2024

The above figure shows the respondents' current position /occupation distribution: there are 4(16.67%) junior auditors, 6(25%) are auditors, 10(37.50%) are senior auditors and 4(16.67%) are team coordinators and the remaining 1(4.17%) is process owner.

Table 4.2: Taxpayers respondents based on business sector

Business sector	Frequency	Percent
Manufacturing	17	19.54
Whole seller	18	20.69
Construction	37	42.53
Service	15	17.24
Total	87	100

Source: field survey result 2024

Data obtained from taxpayer's respondent reveal that 17(19.54%) are from the manufacturing sector, 18(20.69%) taxpayers from whole seller and taxpayers 37(42.53%) from the construction sector and 17(17.24%) taxpayers' respondents from the services sector.

Table 4.3: Taxpayers respondents based on legal Entity of the business

Legal Entity of the business	Frequency	Percent
Privet limited company	75	86.20
Share company	2	2.30
Union	2	2.30
Corporation	8	9.19
Total	87	100

Source: field survey result 2024

Legal entity data obtained from taxpayers' respondent reveal that 75(86.20%) are privet limited company, 2(2.30%) taxpayers Share company, 2(2.30%) from the Union and 8(9.19%) taxpayers respondents corporation.

Table 4.4: Tax payer respondents` position/current job occupation

Position /current job occupation	Frequency	Percent
Business owner	51	58.62
Manager	26	29.89
Accountant	10	11.49
Other job		
Total	87	100

Source: field survey result 2024

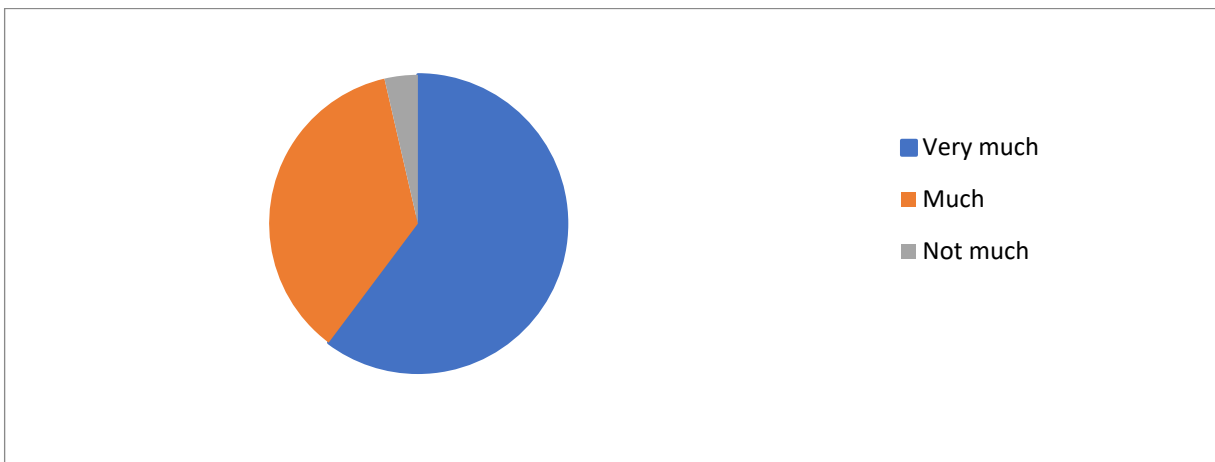
Table 4.4 tax payer respondents' position /current job occupation the above figure depicts the respondents' current position /occupation distribution: there are 51 (58.62%) Business owner 26(29.89%) are Managers, 10(11.49%) are Accountants.

4.3 Survey Results of Auditors

Tax audit practice

To establish knowledge about audit practices, questions were designed to measure familiarity in terms of tax law. Majority of respondents 14(58.33%) indicated that they are familiar with tax law. 9(37.50%) respondents indicated that they are not very familiar with the tax law.

Figure 4.2 Awareness of Tax Law



Source: field survey result 2024

Table 4.5 Type of Audit

Response (Tax audit)	Frequency	Percent
desk audit	1	4.17
Field audit	1	4.17
Comprehensive audit	22	91.67
Total	24	100

Source: field survey result 2024

The response to the question regarding the type of audit usually applied by auditors is summarized in Table 4.5. From the table, most of the respondents said that the type of audit that is applied is determined by the situation. However, Comprehensive audit is applied generally. In rare cases and under some conditions and for certain types of taxes, either desk audit or field audit may be applied.

Table 4.6 Evaluation of Audit Manual

Response (Tax audit)	Frequency	Percent
clear and workable	17	70.83
lacks some clarity	6	25.00
completely unclear	1	4.17
Total	24	100

Source: field survey result 2024

Respondents were asked to evaluate the tax manual. Results from Table 4.6 indicated that more than half of the respondents evaluated the tax audit manual as clear and workable. Close to a third of the respondents saw tax audit manual as lacking some clarity. About 4.17 percent of the respondents viewed the audit manual as completely unclear. When asked about the way they carry out their audit function without familiarity with tax laws, a large proportion of the respondents indicated that they worked with someone who has better knowledge. The rest of the respondents indicated that they carry out their auditing with referring tax audit.

Table 4.7 Measure the effectiveness of tax audit operation

Response (Tax audit)	Frequency	Percent
Yield and productivity	4	16.67
Volume	2	8.33
Quality measurement	4	16.67
Combination of two or more measure	14	58.33
Total	24	100

Source: field survey result 2024

The effectiveness and efficiency of tax audit may be measured by the volume (number) of files audited from the planned. The responses to the effectiveness and efficiency measures are summarized in Table 4.7. Even if the effectiveness of tax audit is measured by a combination of the fore mentioned measures, 58.33 percent respondents said they have used volume as a measure of their audit activity. If we concentrate on effectiveness which is measured by quantity, it is difficult to achieve efficiency, since efficiency concentrates on the inputs utilized to achieve the desired outcome.

Respondents were asked whether there are mechanisms to evaluate the audit activities. It was revealed that there are mechanisms to evaluate the audit activities as responded by all the respondents.

Table 4.8 Categories of taxpayers' difficult work with

Response (Tax audit)	Frequency	Percent
Service Render	0	0
Whole seller	0	0
Manufacturing	16	66.66
Construction	8	33.33
Total	24	100

Source: field survey result 2024

When asked which type of business category is difficult in audit engagement. A large portion of the respondents indicated that manufacturing is difficult to audit because it takes a lot of time and a lot of effort to do. Since the accounting system is complicated and the transaction is huge the audits type also the comprehensive one.so it is difficult to do.

Improving automated system usage, system sustainability and data storage is very important for future performance development. Because these activities are facilitating audit work and capturing audit documents, and helping to gather different information regarding tax system. A lot portion of respondents are chosen for the improvement.

Question regarding information technology, the branch office uses information technology in maximum capacity in audit process in addition to this tax auditor's taken necessary training to apply information technology in audit process. This indicated that majority of auditors apply information technology to make tax administrations more effective by improving information flow, facilitating, coordination, and improving their allocation of resources. Technological changes may reduce taxpayer compliance costs by improving information and services to taxpayers (for example, software for maintaining books and records, and for calculating tax liabilities, or return –free filing alternatives).

According to the question regarding (SIGTAS) application network conduction case, almost all Mekelle branch tax audit department believed that network is a serious problem to apply (SIGTAS) Majority of respondents (96 percent) indicated that network is a serious problem.

Standard Integrated Government Tax Administration System (SIGTAS) is an integrated package with all modules necessary to manage all taxes and licenses including a risk selectivity module, it provides management tools to track amounts assessed, collected, and outstanding amounts including aging of arrears (ERCA2010).

4.3.1 Tax audit Resource Accesses

Table: 4.9 Tax Audit Resources

Questions	Strongly Agree (5)		Agree (4)		Neutral (3)		Disagree (2)		Strongly Disagree (1)	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Tax audit has enough human resource to perform audits for all taxpayers.	5	20.83	4	16.67	6	25.00	5	20.83	4	16.67
Tax audit has enough material and equipment for audit program.	2	8.33	9	37.50	10	41.67	1	4.17	2	8.33
There is a well-organized structure and suitable office for tax audit functions.	1	4.17	6	25.00	7	29.17	6	25.00	4	16.67
Qualified audit staff /well experienced staffs are available.			1	4.17	10	41.67	9	37.50	4	16.67
Education and experience on tax audit affect tax audit effectiveness.	7	29.17	12	50.00	5	20.83				
Do managements provide enough support and encouragement for training and developing tax auditors?	4	16.67	5	20.83	4	16.67	6	25.00	5	20.83

Source: field survey result 2024

The table 4.9 above also holds the survey results related with supply of audit resources for the tax audit work in the selected office. According to this survey result although the office has enough materials and equipment for audit program, it faced the problem in shortage of enough skilled and experienced tax auditors, well-organized structure and suitable office. Management encourages and supports in training and development tax audit is not satisfactory.

Table: 4.10 Successfulness of tax audit program

Questions regarding successfulness of tax audit program										
Questions	Strongly Agree (5)		Agree (4)		Neutral (3)		Disagree (2)		Strongly Disagree (1)	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Dose tax audit had clear audit plan and purpose easy to understand?	8	33.33	14	58.33	1	4.17	1	4.17		
Audit should be performed based on tax audit manual	4	16.67	14	58.33	6	25				
Audit cases are selected based on risk level	5	20.83	11	45	6	25	2	8.33		
Tax audit selection program of the branch has significant effect to increase compliance	5	20.83	12	50.00	3	12.50	3	12.50	1	4.17
Audit activities are started and completed within predetermined time frame	4	16.67	8	33.33	6	25	4	16.67	2	8.33
Audit activity is free from any influence	5	20.83	7	29.17	7	29.17	3	12.50	2	8.33

Source: field survey result 2024

4.3.2 Tax Audit Program

With regard to successfulness of audit program, as shown in the table 4.10 above, the survey result shows majority of respondents responded that the audit was performed based on the audit manual, tax audit has clear audit plan and purpose easy to understand, to identify highly risky business the office has been applying standardized risk identification criteria, it has a significant effect to increase compliance. Taxpayer which has high risk level could be audited at the first place. The audit works undertaken in the office were started and completed within a predetermined timeframe and activities are free from any influence.

Table: 4.11 Legal frameworks

Questions regarding legal framework										
Questions	Strongly Agree (5)		Agree (4)		Neutral (3)		Disagree (2)		Strongly Disagree (1)	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Taxpayers can easily understand and be aware of the tax rules, the tax audit forms and instructions.			1	4.17	10	41.67	9	37.50	4	16.67
Do auditors have the power to access third part information	4	16.67	10	41.67	8	33.33	2	8.33		
Taxpayers obligated to keep books and records	10	41.67	6	25	7	29.17	1	4.17		
Most taxpayers' records are reliable			7	29.17	10	41.67	7	29.17		
There is a sanction or penalty for noncompliant taxpayer	10	41.67	10	41.67	4	16.67				

Source: field survey result 2024

Legal frameworks

As revealed in the table 4.11 above, the majority result indicated that the tax laws and other legal issues were not easily understandable by the taxpayers; the tax laws empower the auditors to access the taxpayers' information for the audit work in the office, the taxpayers have an obligation to keep audit books and records for the next five years as necessary audit documents, most taxpayer's records are reliable, the existence of penalty for non-compliant taxpayers by the office and the tax laws defined the right and obligations of taxpayers clearly in its framework.

Table: 4.12 Regarding compliance

Questions regarding compliance										
Questions	Strongly Agree (5)		Agree (4)		Neutral (3)		Disagree (2)		Strongly Disagree (1)	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Identifying taxpayer weakness and strength has a vital contribution so as to increase the compliance of taxpayers	5	20.83	12	50.00	3	12.50	3	12.50	1	4.17
Taxpayer get adequate awareness from tax audit	1	4.12	6	25.83	10	41.67	7	29.67		
Effectiveness of tax audit is measured by enhanced tax compliance and revenue collection	6	25	9	37.50	6	25.00	3	12.50		

4.3.3 The function of tax audit in improving the compliance level of taxpayers

The tax compliance is filing and paying tax timely according to tax administration guidelines. This covers adherence to the rules and regulations, as well as the reporting requirements. This means reporting all income, claiming the appropriate deductions, filing tax returns on time, and paying taxes on time when they are due (Andrew,2013)

Identifying taxpayer’s weakness and strength has a vital contribution in increasing the compliance of taxpayer; the effectiveness of tax audit was measured by enhanced tax compliance and revenue collection by the office. Taxpayers get less awareness from tax audit.

Table: 4.13 Regarding Tax avoidance and Evasion

Questions regarding tax avoidance and evasion										
Questions	Strongly Agree (5)		Agree (4)		Neutral (3)		Disagree (2)		Strongly Disagree (1)	
	Frequency	Percent	Frequency	Percent	Frequency	Frequency	Percent	Frequency	Percent	Frequency
Series evasion and fraud are basis for selection.	12	50.00	5	20.83	3	12.50	3	12.50	1	4.17
Tax audit has impact on reduction tax avoidance and evasion.	10	41.67	7	29.16	7	29.16				
Auditors' primary objective is assessing additional revenue rather than increasing taxpayer awareness.	5	20.83	9	37.50	4	16.67	4	16.67	2	8.33

4.3.4 The role of tax audit in the reduction of tax evasion and avoidance

According to GIZ Sector Programme Public Finance, Administrative Reform (2010) Tax evasion and avoidance are likely as ancient as the system of taxation itself. In any location and at any time that governments impose taxes, both individuals and businesses seek ways to evade them. While this issue has consistently existed, it becomes increasingly urgent in the context of globalization, which broadens the avenues available to bypass taxes while also lowering the likelihood of being caught.

Evasion and avoidance are basis for tax audit selection. Tax audit has an impact in reduction tax avoidance tax evasion but the branch primary objective is assessing additional revenue rather than increasing taxpayer's awareness.

Table: 4.14 Challenges

Questions regarding challenges										
Questions	Strongly Agree (5)		Agree (4)		Neutral (3)		Disagree (2)		Strongly Disagree (1)	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Taxpayers are unwilling to present important records for audit work			8	33.33	10	41.67	6	25		
Taxpayers have less understanding on tax law	4	16.67	10	41.67	10	41.67				
Unavailable of enough audit resources	3	12.50	10	41.67	7	29.17	4	16.67		
Less skilled and low experiences employees			10	41.67	12	50	2	8.33	2	8.33

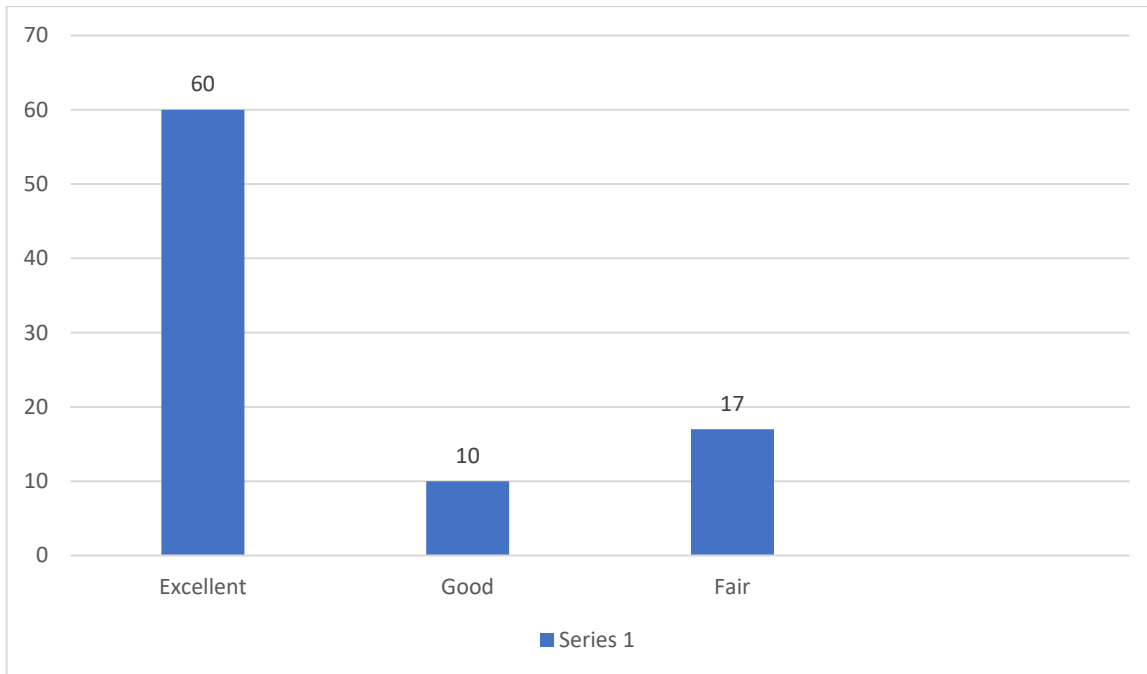
Source: field survey result 2024

As shown in the table 4.13 above, the survey result on challenges of tax audit revealed that majority of respondents reacted as taxpayers were voluntary to present important records, there were enough resources for the audit works. On the other hand, low level of tax payers understanding on tax law, less skilled and inexperienced auditors were taken as challenges of the tax audit.

4.4 Survey results of Taxpayers

Response of tax payers is very important to assess the tax audit practice and its challenges so questions were developed and distributed to taxpayers and the analysis is presented as follows: -

Figure 4.3 Service delivery



Source: field survey result 2024

The respond to the question that tax audit department’s role in the facilitation of taxpayers’ service more than half respondent say that tax audit service is excellent, this means auditors service on in good manner.

Table 4.15 Understanding Tax law

Response (Taxpayers)	Frequency	Percent
Excellent	7	8.05
Good	10	11.49
Medium	70	80.46
Weak	0	0
Total	87	100

Source: field survey result 2024

4.4.1 Taxpayers' compliance level and tax awareness

Question regarding tax law, most of taxpayers 70(80.46%) are states that they have less understanding of tax law.

Taxpayer's opinions whether their tax liability was audited in line with tax laws or not a question was forwarded, 74(85.06%) respondents' states that their tax liability was audited based on the tax law and 13(16.67%) of respondents' states that their tax liability was not audited based on the tax laws.

With regard to tax audit program, the survey result shows majority of respondents 72(80%) responded that the audit was performed based on the audit manual and 15(16.67%) responded that the audit was not performed based on the audit manual.

Table 4.16 Taxpayers' Compliance Level

Response (Taxpayers)	Frequency	Percent
Strongly agree	14	16.09
Agree	13	14.94
Neutral	60	68.97
Disagree	0	0
Strongly disagree	0	0
Total	87	100

Source: field survey result 2024

As indicated in the above table 4.16 out of the 87 taxpayer respondents, 14(16.09%) respondents strongly agreed with the role of tax audit in improving compliance level of tax payers, 13(14.94%) respondents Agreed, 60(68.97%) are neutral with statement.

Table 4.17: Training Taxpayers

Q. Do think that audit decision is fair?	Frequency	Percent
Yes	55	63.22
No	28	32.18
No Respond	4	4.60
Total	87	100
Q. Have ever get a chance to discuss about audit finding?		
Yes	71	81.61
No	16	13.79
Total	87	100
Q. Have ever proceed to appeal after audit case?		
Yes	68	78.16
No	19	21.84
Total	87	100
Q. Does tax audit department provides training to taxpayer?	Frequency	Percent
Yes	80	91.95
No	7	8.05
Total	87	100
Q. Do you feel safe when you perform your tax duty?		
Yes	82	94.25
No	4	4.60
No Respond	1	1.15
Total	87	100

Source: field survey result 2024

4.4.2 Training Taxpayers

The above table 4.17 shows regarding fairness of tax audit decision, appeal, audit finding, taxpayers' education and tax payers' taxpayers' duty are discussed below:

Fairness of tax audit decision: 55(63.22%) respondents/taxpayers believed that tax audit decision is fair whereas 28(32.18%) respondents/taxpayers stated that the tax audit decision is not fair and out of 87 respondents/taxpayers 4(4.60%) did not give their response.

Audit finding: 71(81.61%) respondents/taxpayers discussed with auditor based on the audit finding the other 16(13.79%) respondents/taxpayers didn't get a chance to discuss. Having enough information about audit finding helps taxpayer to understand the situation and to make correction for the future and to proceeds for complain. Before completion of the audit, auditors and taxpayers make reconciliation on the audit findings to provide adequate room for the taxpayer to justify issues raised by auditors. When they finished the reconciliation and reached on consensus on first draft audit, official audit exit conference is held.

Appeal: 68(78.16%) respondents/taxpayers appealed after completion of an audit case while the remaining 19 (21.84%) respondents/taxpayers didn't go for appeal after audit case. According to ERCA (2010), tax audit policy and strategy once taxpayers have been provided with the necessary means to meet their obligations, they must believe that there will be consequences of not complying.

Taxpayers' education; 80(91.95%) respondents stated that tax audit department did not provide training to taxpayers, 7(8.05%) they give training. to taxpayers. Tax payers' feel safe when they perform their duty: - 82(94.25%) respondents feel safe while the remaining 4(4.60%) do not feel safe, 1(1.15%) did not give their response. Taxation is the term by which the government of a country or other authority collection in the form of taxes from its citizens to pay public expenses.

Table 4.18: Evaluating system

Q. How do you evaluate MORMB'' s automated system (SIGTAS) in providing fast service and improving the tax administration?	Frequency	Percent
Excellent	11	12.64
Good	15	17.24
Fair	25	28.74
Poor	36	41.38
Total	87	100

4.4.3 Application of Information technology in auditing (SIGTAS)

Use of information technology /SIGTAS/ enables revenue bodies to provide fast services to taxpayers, to manage taxpayers' data easily, to compute tax liabilities, audit taxpayer's tax return and for continuous follow up. Question related with the automate system particularly SIGTAS'S application was provided to taxpayers. The data obtained from taxpayer respondents reveal that, 11(12.64%) it is excellent, 15(17.274) said it is good, 25(28.74%) said it is fair and the remaining

36(41.38%) respondent said the automate system is poor. In summary significant number 27(46.6%) of taxpayer respondents said it is poor.

To evaluate tax auditors with respect to profession, competency and integrity/ethics another question was forwarded to taxpayers' respondents.

Table 4.19 Taxpayers view on auditors' proficiency

Questioners	Excellent		Good		Fair		Poor	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Professional	30	34.48	44	50.57	13	14.94	0	0
Competent	27	31.03	50	57.47	8	9.20	2	2.30
Integrated/ethical	50	57.47	27	31.03	8	9.20	2	2.30

Source: Field Survey Result 2024

In terms of professionalism, out of the respondent taxpayers, 30(34.48%), 44(50.57%), 13(14.94%) and (0%) revealed excellent, good, fair and poor respectively. In relation to competency surveyed from respondents 27(31.03%), 50(57.47%), 8(9.20%) and 2(2.30%) responded excellent, good, fair and poor respectively and with regard to integrity/ethics 50(57.47%), 27(31.03%), 8(9.20%) and 2(2.30%) respond excellent, good, fair and poor. According to the taxpayers' response majority of the taxpayers' states that tax auditors have good profession, competency and ethical behaviour.

Table 4.18 Auditor's impact

Q. Does auditors free from any influence?	Frequency	Percent
Strongly agree	64	73.56
Agree	21	22.99
Neutral	0	0
Disagree	2	2.30
Strongly disagree	1	1.15
Total	87	100

As indicated in the above table 4.16 out of the 87 taxpayer respondents, 64(73.56%) respondents strongly agreed believed that auditors are free from any influence,21(22.99%) respondents Agreed, 2(2.30) are disagree and the remaining 1(1.15%) respondent did not free from any influence.

At the end question related with problem which needs improvement for future in Mekelle branch, taxpayer respondents, 48(55.17%) respondents stated that it has a problem which needs improvement for future the remaining 39(44.83%) respondent say that no problem which needs improvement for the future.

More than half of the respondent explains that network should needs improvement for future. The other one is tax authority should control e-legal taxpayer and take remarkable measurement to avoid evasion and fraud.

CHAPTER FIVE:

1. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS:

The main objective of this study is to assess tax audit practice and its challenges in the case of large tax payers' office. Both survey and in-depth interview techniques were employed to assess the existing challenges in the tax administration. This chapter is structured in three sections, the first section deals with the summary of findings, the second with conclusions and the third deals with recommendations, based on the analysis and discussion of the study conclusions and recommendations are drawn:

5.1 SUMMARY

The purpose of the study is to assess the tax audit practice and its challenges. Four major aspects are analysed: proficiency and competence of auditors, application of IT in the tax administration especially in audit, function of audit to tackle tax evasion and avoidance and improving the compliance level of tax payers. The major findings of the study are summarized as follows:

- According to the survey, still auditors have less understanding of tax law. These have an impact on revenue collection and taxpayers' awareness creation.
- Among the various types of audits outlined in the tax audit manual of the authority—such as comprehensive audits, desk audits, issue audits (or limited scope audits), field audits, refund audits, and compliance audits it is only the comprehensive audit that is implemented by the tax audit process of the branch office. This practice results in a limited number of taxpayers being covered and restricts the ability to enhance taxpayer compliance.
- The audit manual is a guide, and it helps auditors facilitate their work. They believed that it has unclearly to perform, but they do refer tax law and ask experienced auditors to fill the gap.
- It has weakness in the application of IT in auditing to its maximum capacity: tax department less system usage like SIGTAS some modules only and have poor network.
- The branch has fewer human resources, less qualified, less experienced, and unwell-organized, structured, and unsuitable offices. In addition to this, the top-level management is not alert in facilitating auditors to have enough support and encouragement on training for development tax audit better achievement.

- The main reason for audit work in the office was collecting extra revenue rather than ensuring the tax compliance behaviour of the taxpayers. However, the audit works also focus on evasion and fraud by the taxpayers. Identifying taxpayers' weaknesses and strengths helps to increase the compliance level. The audit work in the office has been completed in the defined time period.
- Taxpayers have less understanding of tax law, and they didn't get any education that was prepared by the audit department, and this creates barriers for taxpayers to comply with the tax laws. In addition, this study focused on the issues rated with tax laws. In this case, the survey results indicated that the tax laws are not easily understandable by the taxpayers. The taxpayers are not willing to present important records. On the other hand, the laws forced the taxpayers to keep the books and records for the next five years. In addition, these auditors have access to third-party information, which helps to collect additional revenue, as 50% of the participants explained there is a tax law that penalizes those taxpayers who are not compliant with the existing law. Furthermore, the laws defined the rights and obligations of taxpayers clearly.
- The tax audit department did not get enough support and encouragement from top management in training and development for future effective audit performance

5.2 CONCLUSION

This paper has attempted to analyse the tax audit practice of Mekell Taxpayers branch office, MOR. In particular, the study explored auditors 'proficiency, competence and integrity, audit's contribution to enhance compliance, role of tax audit practice to reduce the act of tax avoidance and evasion and finally tries to analyse the IT application for audit practice. These investigations were addressed by employing survey questionnaires, semi structured and structured given to tax officials and taxpayers and by reviewing published and unpublished documents. Finally, on the basis of qualitative and quantitative analysis of data, the findings of this study are summarized as follows:

To achieve the objectives of government revenue, a well-organized tax audit program is vital to ensure the fiscal health of the country, and sustain the health of the tax system by reducing the tax gap through voluntary compliance improvement and additional tax collections. Further, it might provide valuable support in identifying areas of the tax law that require clarification or addressing deficiencies in the law, and to influence compliance across the broader taxpayer community at all levels.

Auditors have no well understanding of the existing tax laws. However, the tax laws empower the auditors to request necessary information from the taxpayers. The tax laws have the power of penalizing non-compliant taxpayers. The audit laws endow with the mentioned rights and obligations of the taxpayers.

The main reason for audit work in the office was collecting extra revenue rather than ensuring the tax compliance behaviour of the taxpayers. However, the audit works also focus on evasion and fraud by the taxpayers. Even if the audit work in the office has been completed in the defined time period, there was a problem with audit coverage in the office.

Less understanding and awareness of tax laws by taxpayers, a less skilled and low number of auditors and a scarcity of major audit resources were the major challenges of tax auditing in the office. In addition to this, the top-level management is not alert in facilitating auditors to have enough support and encouragement on training for development tax audit better achievement.

It is obvious that IT plays a significant role in tax audit activity for several reasons that are mentioned in the literature review. But the application of IT in the branch for audit practice is not effective as needed because auditors are not utilizing SIGTAS to the maximum level of modules due to a lack of knowledge and commitment and a very slow network.

5.3. RECOMENDATIONS

This section provides some recommendations that are suggested as a solution to mitigate the operational problems of the tax audit program, such as to improve voluntary compliance and to meet the revenue needs of the government of Ethiopia. Therefore, the researcher has tried to provide briefly the following recommendations:

Auditors should need job training regarding tax law, regulations, different directives and audit manuals to clear the release of wrong clarifications on different laws and should compile the right explanations to avoid confusion of auditors in their work. Furthermore, they should give continuous training to auditors on different tax laws.

The top-level management should continuously commit to supporting and encouraging tax audit departments in different areas to increase the number of well-trained auditors and a suitable environment for better audit performance.

The branch's tax audit process should start implementing different types of audits which are listed in the tax audit manual other than comprehensive audit, to increase the audit coverage for the ultimate goal of enhancing taxpayers' compliance and increasing additional tax revenues.

The authority or audit department should continuously improve the public awareness of the consequences of being compliant and non-compliant, so that the level of compliance can be improved and non-compliance will be minimized. In addition to this, continuous and intensive training and awareness creation programs should be prepared for taxpayers.

Tax audits should aim at reducing the problems of tax evasion, tax avoidance and other tax irregularities to improve the level of filing, payment and reporting compliance by collaborating with intelligence and investigation departments of the by authorities and different external stakeholders.

Penalties should be used in combination with other measures such as taxpayers' education and services in order to achieve greater compliance. Mekell branch office should improve the network quality problem in providing fast services to its customers and employees should be trained more to utilize the maximum module of SIGTAS effectively.

The tax authority should continuously review the tax laws so that the loophole of the laws can be addressed without adversely affecting the tax revenue of the government.

Finally, Mekelle branch office should increase the number and improve the capability of total audit staff resources to achieve the required audit rate and audit quality, which might improve overall

compliance and future tax revenue performance. There should be appropriate need assessment and employees should be given training based on the gap identified. Auditors should be given continuous training so that their skills are kept up-to-date and relevant. Further, the authority should supply sufficient computers and other necessary audit resources for auditors.

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MEKELLE UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF FINANCE AND INVESTMENT
QUESTIONNAIRE ON: TAX AUDIT PRACTICE AND ITS CHALLENGES
(Case study Ministry of Revenue Mekelle Branch)

Date-----

Dear respondent,

The purpose of this study and this questionnaire is to conduct research on “to assess and Identify the challenges of tax audit practice” for the partial requirement for the MSc degree. The outcomes of this study will help policy makers and tax Authorities, particularly Minister of Revenue Mekelle Branch, to know its weak areas and to make corrective measures, modern service to its customer, to organize the tax audit in way that promotes modern tax administration. This research is intended only for academic purpose authorized by the representative of Mekelle University; Thus, your ideas and comments are highly honoured and kept confidential. The researcher appreciates in advance your cooperation and sparing your valuable time in filling this questionnaire, if you have any questions about completing the questionnaire contact me with this address.

Gibtsawit Bokure

gibtsawitbokure@gmail.com

Tell: 0924463523

Part-1: Background information

Please provide your responses by making tick (✓) in the relevant boxes.

1. Gender:

I. Male

II. Female

2. Age:

I. Less than 20 years

II. 21 – 35 years

III. 36 – 50 years

IV. Above 51 years

3. Education status:

I. Diploma

II. Degree (BSc/BA)

III. Masters (MSc/MA) and above

4. Field of study:

I. Accounting and Finance

II. Economics

III. Management IV. Others, please specify

5. How long did you work as an auditor?

I. One year

II. Five year

III. More than five years

Part-2 Question regarding Tax audit practice

1. How familiar are you with the tax laws?

a) Very much

b) Much

c) Not much

2. What type of audit is usually performed?

a) Desk Audit

b) Field Audit

c) Comprehensive Audit

3. How do you evaluate audit manual?

a) It is clear and workable

b) It lacks some clarity

c) It is completely unclear

4. If the answers for No3 out of them how do you carry out your audit function?

a) Referring tax laws

b) working with someone who has better knowledge

- c) As per the knowledge gained through education and training
6. How do you measure the effectiveness of any audit operation?
- a) Yield & productivity
 - b) Volume
 - c) Quality measures
 - d) A combination of two or more of the measures as appropriate
7. Is there a mechanism to evaluate the audit activities?
- a) Yes
 - b) No
8. Which tax category of tax payers are more difficult to audit?
- a) Service render
 - b) Whole seller
 - c) Manufacturing
 - d) Construction
9. Which area would you recommend for improvement in the future?
- a) staff training in automated system usage
 - b) system sustainability
 - c) Data storage
10. Do you think that the branch office applies information technology in auditing to its maximum capacity?
- a) Yes
 - b) No
 - c) others specify
11. Do auditors have taken the necessary training to apply IT in Auditing?
- a) Yes
 - b) No
12. Do you think that network is a serious problem in the application of SIGTAS/ standard integrated government tax administration system in auditing?
- a) Yes
 - b) No

Part-3 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)

	Questions regarding tax audit resources	strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	strongly Disagree (1)
1	Tax audit has enough human resource to perform audits for all taxpayers.					
2	Tax audit has enough material and equipment for audit program.					
3	There is a well-organized structure and suitable office for tax audit functions.					
4	Qualified audit staff /well experienced staffs are available.					
5	Education and experience on tax audit affect tax audit effectiveness.					
	Part-4 Questions regarding the effectiveness of tax audit program					
1	Audit should be performed based on tax audit manual					
2	Dose tax audit had clear audit plan and purpose easy to understand?					
3	Audit cases are selected based on risk level					
4	Audit activities are started and completed within predetermined time frame					
5	Audit activity is free from any influence					
6	Tax audit identify taxpayer weakness and strength					
7	Effectiveness of tax audit is measured by enhanced tax compliance and revenue collection					

8	Auditors' primary objective is assessing additional revenue rather than increasing taxpayer awareness.					
	Questions Regarding Tax Evasion and Avoidance.					
1	Tax avoidance and tax evasion are important factors limiting revenue mobilization.					
2	Tax audit impact on reduction of tax evasion, fraud					
3	Tax avoidance and tax evasion are important factors limiting revenue mobilization.					
	Part-4 Questions regarding s for taxpayers' compliance					
1	The Audit coverage in the branch has a vital contribution so as to increase the compliance of taxpayers					
2	The audit selection program of the branch has significant effect to increase compliance					
3	Taxpayers get adequate awareness from the tax audit					
4	Ministry of revenue give sufficient training for tax payer to increase the compliance of taxpayers					
	Part-4 Questions regarding s challenges					
1	Taxpayers are unwilling to present important records for the audit work					
2	Less understanding on tax laws by the taxpayers					
3	Unavailability of enough audit resources					
4	Less skilled and low experienced employees					

MEKELLE UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF FINANCE AND INVESTMENT
QUESTIONNAIRE ON: TAX AUDIT PRACTICE AND ITS CHALLENGES
(Case study Ministry of Revenue Mekelle Branch)

Date-----

Dear respondent,

The purpose of this study and this questionnaire is to conduct research on “Assessment of tax audit practice and its challenges” for the partial requirement for the MSc degree. The outcomes of this study will help policy makers and tax Authorities, particularly Minister of Revenue Mekelle Branch, to know its weak areas and to make corrective measures, to serve modern service to its customer, to organize the tax audit in way that promotes modern tax administration. This research is intended only for academic purpose authorized by the representative of Mekelle University. Thus, your ideas and comments are highly honoured and kept confidential. The researcher thus appreciates in advance your cooperation and sparing your valuable time in filling this questionnaire, if you have any questions about completing the questionnaire contact me with this address.

GibtsawitBokure

gibtsawitbokure@gmail.com

Tell: 0924463523

Part-1: Background information

Please provide your responses by making tick (✓) in the relevant boxes.

1. Gender:

1) Male

2) Female

2. Age:

1) Less than 20 years

2) 21 – 35 years

3) 36 – 50 years

4) above 51 years

3). Level of education

1) Degree

2) Diploma

3) Certificate

4) Grade12 and below

4. What is your business type?

1) Manufacturing

2) whole seller

3) service sector

4) Construction

5) other

5. What is the legal form of your business?

1) Privet limited company

2) Partnership Corporation

3) Share Company4) Corporation

6. What is your position in the sector?

1) Owner

2) Manager Account

3) Others

1. What is your opinion about the tax audit department's role in the facilitation of taxpayers' service?

A) Excellent

B) Good

C) Fair

D) Poor

2. What is your understanding about tax law?

A) Excellent

B) Good

C) Medium

D) Weak

3. Have you ever been audited you company?

A) Yes

B) No

4. Do you think that the audit was done based on tax law in a fair manner?

A) Yes

B) No

5. Tax audit plays greater role in improving compliance level of tax payers?

- A) Strongly agree B) Agree C) Neutral
D) Disagree E) strongly disagree

6. Do think that audit decision is fair?

- A) Yes B) No

7. Have ever proceed to appeal after audit case?

- A) Yes B) No

8. Have ever get a chance to discuss about audit finding?

- A) Yes B) No

9. Does Ministry of Revenue Mekelle branch office provide training to taxpayer?

- A) Yes B) No

10. Do you feel safe when you perform your tax duty?

- A) Yes B) No

11. How do you evaluate MORMB” s automated system (SIGTAS) in providing fast service and improving the tax administration?

- A) Excellent B) Good C) Fair D) Poor

12. How do you evaluate the tax performance of auditors?

- A) Efficient B) Medium
C) Weak D) I cannot evaluate

13. Does auditors free from any influence?

- A) Strongly agree B) Agree
C) Disagree D) strongly disagree

መቐለ ዩኒቨርሲቲ

ቢዝነስ ኢኮኖሚክስ

ናይ ፍይናንስ ኢቮሎሽንና ዲፓርትመንት

ዕለት-----

ዝተከበርኩም ናይዚ መፅናዕቲ ተሳተፍቲ

ኣብ ትሕቲ መቐለ ቅ/ፅ/ቤትሚኒስቴሪ እቶት ዝርከቡ ግብሪ ከፋልቲ ዝምላእ መጠየቅታ “Assessment of tax audit practices and its challenges” ናይ ኦዲት ስራሕቲ ምርማር ንዘጋጥሙ ችግራት ብዝብል ርእሲ ዝተዳለወ መፅናዕቲ ካብ ዝተመረፀ ሰነዳት፣ካብ ታክስ ኦዲተራት፣ናይታክስ ኦዲተራት ኣታሓባቦርትን ብሕቶዝተእከቡ መረዳእታት ንምጥንኻር ዝሕግዝ መፅናዕቲ ምስ እዚ መፅናዕቲ ርክብ ካብዘለዎም ግብሪ ከፋልቲ ትክክለኛ መረጃ ንምእካብ እዚ መሕትት ተዳሊዉ ኣሎ። ብምዃኑም ኣብቲ ዝተውሃበ ሳንዱቅ ውሽጢ ምልክት ብምግባር ፤ኣብ ክፍቲ ቦታታት መልሶም ይጻሓፉ። ዝዋሃበ ግብረ መልሲ ብምሽጥር ዝተሓዘን ነቲ መመሪቂ ዕሑፍ መፅናዕቲ ጥራሕ ዝጥቀመሉ ንምኻነ ከረጋግፀልኩም ይደሊ ።በዚ እዉን ሽምኩም ይኹን ሽም ድርጅትኩም ምፅሓፍ ዘየድሊ ምኻኑ ብምሕባር ናይቲ ዝመልእ መጠየቅ ትሕዝቶ እዉን ነዚኣም ዘየካትት ስለዝኮነ ብዘይ ምንም ስኽፍታ ንክትመልኡለይ ክሓትት ይደሊ።ንዝግበረለይ ምትሕብባር ብቀዳምነትየመስግን። በይዘኣም መልሶም ብዝተውሃ በሳንዱቅ ናይ (✓) ምልክት ብምግባርይመልሱ

ግብፃዊትቦኹረ

1 ናይ ውልቀ መረዳእታ ብዝተመልከተ

1.1 ቦታ 1) ተባዓታይ 2) ኣነስታይ

1.2 ዕድመ

- 1) ካብ 30 ንታሕቲ
- 2) ካብ 31- 40
- 3) ካብ 41-50
- 4) ካብ 51-60
- 5) ካብ 60 ንላዕሊ

1.3 ናይትምህርትደረጃ

1. ዲግሪና 2. ዲፕሎማ 3. ሰርተፊኬት

4. ዓሰር ተክል ተክፍሊ ዘጠናቀቀ 5. ካብ ዓሰርተ ክፍሊ ንታሕቲ

1.4 ናይ ድርጅቶም የሰራሕ ዘርፍ

1) መምረቲ 2) ችርቻሮ ንጅምላንግዲ

3) አገልግሎት ማለት (ጽገና ሆቴልአገልግሎትመስተአቅርቦት.ወዘተ)

4) ኮንስትራክሽን

1.5 ናይድርጅቶህጋዊስውነት

1) ኃ/የተ/የግ/ማህበር 2) ሽርክናማህበር

3). ካሊእ

1.6 ኣብ ድርጅቶም ዘለዎ ስራሕ ሓላፍነት

1) ባዓል ዋና 2) ስራሕ መካየዲ

3) ሂ/ባለሞያ

4) ካሊእ ሞያ እንተሊይዎም ይግለፁ-----

1. አገልግሎትአወሃህባታክስኦዲትዲፖርትመንትከመይትርኢዎ?

ሀ) ብጣዕሚፅቡቅ ለ) ፅቡቅ

ሐ) ማእከላይ መ) ድኩም

2. ኣብ ታክስ ዙርያ ዘለኩም ርዲኢት ከመይ እዩ?

ሀ) ብጣዕሚፅቡቅ ለ) ፅቡቅ

ሐ) ማእከላይ መ) ድኩም

4. ድርጅትኩም ኦዲት ተገሩይፈልጠዶ?

ሀ) እወ ለ) ኣይ

5. ኦዲተራትታክስሕገመሰረትብምግባርብፍትሓዊመልክፅይሰርሑኢሎምይአምኑዶ

ሀ) እወ ለ) ኣይ

6. ኦዲተራትናይግብሪክፈልቴግብሪብዓርስካናይምክፋይደረጃኦብምፅባይዘለዎምአበርክቶኣብየእ

ዩ።

ሀ) ብጣዕሚ ይስማዕማዕ ለ) ይስማዕማዕ

ሐ) አይስማዕማዕን መ) ብፍፁም አይስማዕማዕን

7. ናይ ኦዲት ውሳኔ ፍትሐዊ እዩ ዶይብሉ?

ሀ) እወ ለ) ብመጠኑ ሐ) ፍትሐዊአይኮነን

8. ድሕሪኢዲትኬዝ (ውሳኔ) ቅሬታ አቅሪቦም ይፈልጡዶ?

ሀ) እወ ለ) አይፈልጥን

9. ብዛዕባ ኦዲትር ካብ ናይ ምምይያጥ ዕድል ረኪቦም ይፈልጡዶ?

ሀ) እወ ለ) አይ

10. እቶት ሚኒስትር መቐለ ቅርንጫፍ ንግብሪ ከፋልቲ ናይ ታክስ ስልጠና ይህብዶ?

ሀ) እወ ለ) አይ

11. ግብሪ ከፈልቲ ናይ ግብሪ ግዲታኦም ክዋፅኡ ከለዉ ድሕንነት ይስመዖምዶ?

ሀ) እወ ይስመዓኒ 2) ድሕንነት አይስመዓንን

12. ናይ ኦዲት ዲፖርትመንት ስራሕ ምንምስላጥ ኢንፎርመሽን ቴክኖሎጂ ይጥቀሙዶ?

ሀ) እወ ይጥቀሙ ለ) አይጥቀሙን

13. መቐለ ቅርንጫፍ እቶም ኦዲተራት ዘለዎም አቅሚ ከመይ ይግምግምዎ?

ሀ) ብጣዕሚ ፅቡቅ ለ) ፅቡቅ

ሐ) ማእከላይ መ) ክግምግሞ እይክእልን

14. መቐለ ቅርንጫፍ እቶም ኦዲተራት ገለልተኛ እዮም ኢሎምዶ ይአምኑ?

ሀ) እወ ብጣዕሚ ይአምን ለ) ብመጠኑ ይአምን

ሐ) አይአምንን መ) በፍፁም አይአምንን