

# Assessment of Tax Audit Practice and its Challenges A Case Study of Ethiopian Revenue and Custom Authority Large Taxpayers'

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**Abstract:-** Tax audit is an activity or a set of activities performed by tax auditors to determine taxpayer's correct tax liabilities for a particular accounting or tax period. Many countries have adopted a self-assessment system (SAS) including Ethiopia; The main objective of this study was to assess the tax audit practice and its challenge in the case of large taxpayers' office and tries to assess the application of automation in audit, the proficiency of auditors, functions of audit in the reduction of tax evasions and avoidances and how it is exercised to increase the compliance level of taxpayers. Descriptive method was used to analyze the collected data. To achieve these objectives, both quantitative and qualitative research approach were used and data were collected from primary and secondary sources. Primary data were collected by using survey method from the tax audit staff and large taxpayers'. Well structured questionnaires distributed to 48 tax audit staff respondents and out of these 40 were returned, and, to 588 taxpayers' respondents and 426 were returned. The analysis provided the tax audit had problems in the application of automation in tax audit to its maximum capacities, incompetent auditors to tackle tax evasion and avoidance, weak taxpayers' education program which cannot improve the compliance level of taxpayers. The study concluded that if tax audit were conducted by competent auditors, and supported by automation, it would have resulted in effective tax administration, improved compliance level and increased tax revenue. The study recommended that the tax authority /ERCA/ should improve the capabilities of tax auditors, and apply automation, in its audit to its maximum.

**Keywords:-** Tax Audit, SIGTAS, Evasion, Avoidance and Compliance.

## I. INTRODUCTION

Taxation provides governments with the funds needed to invest in development, relieve poverty and deliver public services. It offers an antidote to aid dependence in developing countries and provides fiscal reliance and sustainability that is needed to promote growth. Significant progress has been made by many developing countries but weak capacity, corruption and the missing reciprocal link between tax and public and social expenditures remain as challenges (IMF, OECD, UN & World Bank, 2011).

Many countries have adopted a self-assessment system (SAS) including Ethiopia. The tax return furnished by the taxpayers is deemed as final and accepted at face value. Tax compliance under the SAS is highly dependent on voluntary compliance i.e. honesty of the taxpayers in computing their tax payable. Another significant aspect of the SAS is tax audits. Tax audits are an examination of taxpayers' business records and financial affairs to ensure taxpayers have computed their tax payable in accordance with the current tax laws and regulations (Isa and Pope, 2011).

The audit programme of a revenue body performs a number of important roles that, effectively carried out, can make a significant contribution to improved administration of the tax system. A tax audit is an investigation into the background of tax returns submitted by an individual or business to a tax agency. The idea of a tax audit normally conjures up feelings of anxiety even in persons who believe their tax documents are perfectly in order. While it is true that a tax audit may be called due to some perceived irregularity in one or more returns, it is also true that an audit may be done simply as part of a random sampling. Most governments around the world include an agency that is charged with overseeing the process of tax collection from individuals and companies that reside within the jurisdiction (OECD, 2006).

According to ERCA (2010), Tax audit is an activity or a set of activities performed by Tax auditors to determine at taxpayer's correct tax liabilities for a particular accounting or tax period, by examine of a taxpayer's organization procedures and financial records in order to assess compliance to tax laws and verifying the true, fair, reliable, and accuracy of tax returns, and financial statements.

## II. STATEMENT OF THE PROBLEM

According to Tanzi & Zee,( 2000, as cited by kayaga,2007), explanation In developing countries where market forces are increasingly important in allocating resources; the design of the tax system should be as neutral as possible so as to minimize interference in the allocation process. The system should also have simple and transparent administrative procedures so that it is clear if the system is not being enforced as designed, Developing countries would like to increase their tax-to-GDP ratios in order to reduce budget deficits, improve the services they

provide, and optimize the effectiveness of their tax structures. Although it is commonly said that the only things certain in life are death and taxes, it is unmistakable that taxes are in fact far from inevitable. Individuals do not like paying taxes, and they take a variety of actions to reduce their tax liabilities. (Alm,1999).

According to ERCA (2010),Ethiopian tax policy geared towards promoting investment, supporting industrial development; and broadening the tax base and decreasing the tax rate, at least maintaining the current reduced tax rates compared to most other countries, in view of financing the ever-growing needs of the government expenditure. On the other hand the policy is designed towards discouraging certain production and consumption activities, which had /and will have bad effects on health, moral, economic and social settings of the community.

ERCA was established in 2008 (by proclamation number 587/2008) through the merger of the former Ministry of Revenues, Federal Inland Revenue Authority and the Ethiopian Customs Authority. The formation of ERCA signals the Ethiopian Government's commitment to establishing a modern tax and customs administration dedicated to meeting the requirements of the business community, encouraging voluntary compliance, combating smuggling, tax evasion and fraud as well as other illegal activities, thereby, contributing to the economic and social development(ERCA,2010).

Ethiopia's economy has experienced strong, broad based growth, averaging 10.3% a year from 2005/06 to 2015/16, compared to a regional average of 5.4%. Despite being the fastest growing economy in the region, the country is also one of the poorest. The main development challenges that Ethiopia faces is sustaining its positive economic growth and accelerating poverty reduction, which requires progress in job creation and improved governance (World Bank 2018b) However, even if there is an increase in the tax to GDP ratio for last few years, it is still low as compare to the Sub Saharan countries tax to GDP ratio 18% where as the Ethiopia tax to GDP ratio is 11.6% for the fiscal year 2012 (ERCA, 2016).ERCA planned to collect (30.5Billion, 45.5 Billion, 70Billion, and 87 Billion)birr for the fiscal year 2010-2013 and the actual collected tax was (35.7 Billion,50.82 Billion,70.75billion and 84.41billion)birr respectively there was progress for the fiscal year 2010-2012 and for 2013 it only achieves 95% its targeted plan. Tax administration is an extremely important area for public sector reform in Ethiopia as it is a key issue raising domestic revenue to support the delivery of Ethiopia's public services. Tax audit is an activity or a set of activities performed by Tax auditors to determine at taxpayer's correct tax liabilities for a particular accounting or tax period, by examine of a taxpayer's organization procedures and financial records in order to assess compliance to tax laws and verifying the true, fair, reliable, and accuracy of tax returns, and financial statements (ERCA, 2010).ERCA has given attentions to taxpayers' segmentation that is large taxpayers, medium and small and micro, to provide fast taxpayers service and to handle their

tax affairs in a manageable manner. Accordingly large taxpayers' office is established by the tax authority to provide service for customer/taxpayers whose Annual turnover is above 15,000,000 and this branch office contributes the largest portion of the total domestic tax revenue collected by the tax authority for instance ERCA's plan for the fiscal year 2014 from domestic tax revenue is 60,236,140,000 and out of this 44,680,770,000 or (74.18%) is to be collected by LTO branch office, (ERCA, 2015). If tax evasions and avoidances take place/occur in this branch it adversely affects the government's revenue, To mitigate such problems, therefore, a successful audit program should be implemented which is capable to investigate, detect and prevent loss of tax revenue, and to improve its tax administration and tax potential. Thus, the researcher becomes interested to assess the tax audit practice and its challenge in the case of large taxpayers' office and the study is limited to the tax audit.

### III. LITERATURE REVIEW

#### ➤ *Definitions of tax audit*

A tax audit is an examination of whether a taxpayer has correctly assessed and reported their tax liability and fulfilled other obligations. Tax audits are often more detailed and extensive than other types of examination, such as general desk checks, compliance visits/ reviews or document matching programmes. There are, of course, exceptions to this rule. Conditions and approaches vary from country to country (OECD, October 2006). Generally, 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. As well as income tax returns and other reporting, this includes supporting documents, which the taxpayer should normally have. In the case of business audits, national law often requires a business to obey certain bookkeeping and accounting standards. The audit may also involve physical enquiries, such as the inspection and examination of goods in stock, premises etc (OECD, October 2006).

According to ERCA (2010), Audit is defined as the structured examination of a business' relevant commercial systems, financial and non-financial records, physical stock and other assets, internally generated data and that produced independently of the business. Tax audit is an activity or a set of activities performed by Tax auditors to determine at taxpayer's correct tax liabilities for a particular accounting or tax period, by examine of a taxpayer's organization procedures and financial records in order to assess compliance to tax laws and verifying the true, fair, reliable, and accuracy of tax returns, and financial statements.

➤ *Audit case selection methods /techniques*

As Gupta and Nagadevara (n.d), noted tax audit is a detailed exploration into the activities of a taxpayer to determine whether he/she has been correctly declaring the tax liabilities. Audits indirectly drive voluntary compliance and directly generate additional tax collections, both of which help tax agencies to reduce the 'tax gap' between the tax due and tax collected. Audit plays the pivotal role in the administration of tax and achieving the revenue objectives, ensuring the fiscal health of country and ensures a level playing field for an honest taxpayer. On the other hand, being an intrusive method, audit is not a very welcome procedure both for the taxpayers as well as the economy. Conducting of audits involves costs to the tax department as well as to the taxpayer. Tax administration agencies must therefore use their limited resources very judiciously to achieve maximal taxpayer compliance, minimum intrusion and minimum costs. Planning an adequate audit strategy therefore, is a key success factor in a posteriori fraud detection (where audits are intended to detect tax evasion and fraudulent claims) as well as proactively preventing frauds and tax evasions.

➤ *Risk Based Audit Selection*

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, 2010).

#### IV. OBJECTIVES OF THE STUDY

➤ *General Objectives*

The main objective of this study is to assess the tax audit practice and its challenge in the large taxpayers' office.

➤ *Specific Objective*

The specific objectives of the study focus on the following

- To assess the challenges in the application of automation in the tax audit.
- To evaluate the function of tax audit in improving the compliance level of taxpayers
- To examine the tax auditors' proficiency, integrity and competence
- To assess how tax audit is exercised in the reduction of tax avoidance and evasion.

#### V. METHODOLOGY

The researcher has used a mixed research approach. The reason to use this approach was to address problems of the study from different perspectives. The researcher used primary and secondary data sources. Questionnaires and interviews were used as the main instruments for data gathering from large taxpayers' and tax officials and tax auditors. The questionnaires were designed in structured open and close ended manner. The target population or

universe was 1116 Large Tax payers Office registrant taxpayers and 48 tax audit staff members 1 process owner, 9 tax audit team coordinators, and 20 senior auditors, 2 auditors and 2 are junior auditor of the audit department of LTO branch. The sample size of the study was 588 large taxpayers' and in this study, the researcher used both probability specifically simple random sampling techniques and non probability sampling for the 48 tax audit staffs as a whole.

#### VI. RESULTS AND DISCUSSIONS

➤ *Pilot Study*

Pilot test was performed to determine the appropriateness and relevance of the questions in the instrument. Test of content validity was performed which was measuring to the extent of the instrument provides adequate coverage, representativeness of the universe, specificity and clarity of the topic under study. The instrument was provided to three academicians and four practitioners who assessed each item thoroughly. The draft was also distributed and piloted on 20 large taxpayers of Large Taxpayers'.

➤ *Reliability Test*

The researcher used Reliability test analysis for the assessment tax audit practice and its challenges taxpayers' satisfaction with the satisfaction determinant factors using Cronbach's alpha ( $\alpha$ ). Cronbach's alpha is the most common and widely used measure of internal consistency (reliability). The Cronbach's alpha ( $\alpha$ ) of the scale used in the research is 0.87 which is far greater than 70%. The scales with the coefficient alpha above 0.70 is good and acceptable This shows that there is high internal consistency and reliability in the questionnaire. Therefore, the level of alpha was considered to be reliable enough to proceed with the data analysis.

#### VII. DATA ANALYSIS AND RESULTS

The questionnaires were distributed to both Addis Ababa residents' large tax payers' office registrant taxpayers and LTO tax audit employee respondents. The questionnaires distributed to the taxpayers were prepared in Amharic version so as to avoid language barriers and minimize response biases due to misunderstanding.

A. *Response Rate Analysis*

The field survey result indicates that from 588 questionnaires distributed to LTO registrant taxpayers and 426 were returned representing 72.44 percent and from 48 questionnaires distributed to the tax audit staffs, 40 questionnaires were returned and represent 83.33 percent. In addition structured interviews were held with the tax audit process the owner, tax audit team leader and senior tax auditor and unstructured interview from LTO tax payers.

**B. Demographic information of respondents**

In the following tables, and charts information related to sample respondents’ gender, Age, educational background, work experience and current occupation of tax audit staffs and gender, Age, education and business sector of tax payers were presented and analyzed. To get these information respondents were provided with structured questions.

The primary focus of this study is to assess the challenges and prospects of tax audit in the Ethiopian

revenue and customs of large taxpayers’ office. Two different types of questionnaires were prepared and distributed to collect primary data from the two groups of the respondents: tax auditors and taxpayers. The target population for this study was tax auditors and taxpayers of the branch office. Questionnaires were distributed to 48 tax audit staffs and 588 taxpayers of the branch office participants that met this criterion, based on list compiled by the revenue office.

<b>Level of education</b>	<b>Frequency</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Degree	30	75.0	75
masters and above	10	25.0	100
<b>field of study</b>	<b>Frequency</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Accounting and finance	32	80.0	80
Management	6	15.0	95
Economics	2	5.0	100
<b>Current position</b>	<b>Frequency</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Junior auditor	8	20.0	20
Auditor	2	5.0	25
Senior auditor	20	50.0	75
team leader	9	22.5	97.5
Process owner	1	2.5	100
<b>Work experience</b>	<b>Frequency</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Less than two years	8	20	20
2-5 years	19	47.5	67.5
Greater or equal to six years	13	32.5	100
<b>Did you attended any special training with your current position</b>	<b>Frequency</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Investigation and intelligence	7	22.5	22.5
Preparation of audit findings	20	50	72.5
Audit selection techniques	7	17.5	90
Others	4	10	100
<b>How long have you been taking in training</b>	<b>Frequency</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Less than 16 days	30	75	75
16-30 days	8	20	95
31-60 days	1	2.5	97.5
More than 60 days	1	2.5	100
<b>Are you satisfied with your current salary</b>	<b>Frequency</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Yes	34	85	85
No	6	15	100

Table 1:- Profile of Large Tax payers Office Tax Auditor Staff’s Respondents

As shown in table 1 the educational background of the tax audit staffs respondents,30(75%) are of the respondents are bachelor degree holders, where as 10(25%) of them are masters degree or above holders, this figure shows that the tax auditors’ educational qualification is seem to be adequate to perform audit tasks. As audit standards

majority 75% of auditors should have a university and college graduated, therefore it can be concluded that educational qualification is important to understand the tax laws and regulation and other international auditing standards, as a result of this is the branch office will achieve its audit objective. Although, most of the audit

staffs are bachelor degree holders, not only this but also auditors should have more professionalism to do best audit practices, activities and responsibilities in order to enhance audit efficiency, gain audit effectiveness, receive audit performance, and audit success. Regarding their field of study majority of the respondents are specialized in Accounting and Finance which accounts for 80% of the total sample and remaining 20 % were specialized in management and Economics. The international audit standard requires an auditor to have the knowledge of accounting, investigation and management, it can be concluded that the auditors have the required knowledge. The organizational structure of the audit staff shows that 8(20%) are junior auditors, 2(5%) auditor position, 20(50%) of the respondents are senior auditors, 9(22.5%) are team leaders and 1(2.5%) is processor owner, from this it can be seen that the composition of the audit staff is good it has positive implication in improving the tax administration.

As it can be seen from the above the work experience in the current position of tax auditors/ officials 8 (20%)

have less than two years, 19(47.5%) respondents have 2-5 years, and the remaining 13(32.5%) have more than 10 years work experience. Well experienced tax auditors/officials can tackle tax avoidance and evasions committed by non compliant taxpayers in a better way. Tax audit staffs were asked whether they taken any special training and the their responses shows that 7(22.5%) of them have taken Investigation and intelligence, 20(50%) of them have taken Preparation of audit findings, 7(17.5%) of them have taken Audit selection techniques and the remaining 4(10%) of the respondents have other types of training, the international audit standards recommended that the above three areas of trainings are very important for tax auditors from this it can be concluded that the tax authority has provided the necessary trainings for tax audit staffs. The audit staffs were also asked whether they are satisfied with their current salary or not accordingly, 34(85%) of them responded that they are satisfied and 6(15%) of them are not, from this it can be concluded that most of them are satisfied, and it has positive contribution to the success of the branch office.

Measures	Frequency	Percent
Missed	5	12.5
Lack of job security	10	25
The salary scale/payment packages	9	22.5
Working environment/condition	3	7.5
due to the riskiness	8	20
due to the work load	5	12.5
Total	40	100.0

Table 2:- Survey response regarding reason for auditors’ dissatisfaction

Source: Field Survey Result 2017

as it can be observed from the above table 2 Audit staff Respondents were asked to list their reasons for their dissatisfaction, and out of the 35 respondents who are dissatisfied 10(25%) are due to lack of job security, 9(22.5%) are because of the salary scale/payment packages, 3(7.5%) are due to the working environment/conditions and 8(20%) are dissatisfied because of the riskiness of the job and the remaining 5(12.5%) are due to the work load.

This question was also supplemented with interviews with the team leaders and senior auditors as to why they were satisfied or not those who respond we are satisfied said that it is the audit section where they can apply the theories and principles they learnt in their field of study/discipline and having the knowledge and experience in auditing increases their demand in the labor market. They didn’t denied their riskiness, exposure to corrupt practices and the challenges they face, however these are scarifies they are paying now for the betterment their future life. The interviewees who were dissatisfied with their current job justify their reasons by stating the challenges they faced. Some of these are the risk of being fired without any concrete evidence if they are suspected in corruption, lack of support from top management in providing different facilities like transport, and there is also uniform payment

system without considering the risk, the work load and other factors for instance an auditor and a human resource officer earns equal salary but the risk and the work load is incomparable, in addition to these they raise an example of our neighbor country Kenya an auditor is paid some percent of the amount he/she audit in excess of to his/her salary, and the code of conduct article 37 says that the general director has full power to fire an employee if suspected in corruption without any evidences and an employee who is fired will not have the chance to get back his job even if his innocent is proved by the court these and others makes them to dissatisfy with their current job.

To evaluate the tax auditors’ capabilities, The survey response of the tax auditors was very important to know whether the tax auditors have got adequate training that enable them to work independently, according to the above table 4.7 Data obtained From respondents revealed that most of the respondents 33(82.5%) respond that they didn’t get adequate training on tax laws and audit to carry out audit independently and 6(15%) responds got training on tax laws and audit that enable them to work independently and the remaining 1(2.5%) didn’t respond his position. Majority of the tax auditors/officials didn’t get enough training.

To supplement the questioner an interview was held with team leaders, According to the outcomes of the interviews training is important to update auditors with tax laws and new regulations and directives; however ERCA has weakness on this aspect. At the beginning of the budget years training need is filled but the training given to auditors is not directly related with audit. Auditors are

forced to update themselves by reading auditing materials developed by ERCA, The interviewees also pointed that the authority should provide trainings to its employees so that the regulations and directives can be applied in a uniformly manner. Trainings in the area of investigation audit, intelligence and IT are very important for auditors to work independently.

Do you think that tax audit in LTO is playing vital role in the reduction of tax evasion and avoidance?	Frequency	Percent
Yes	35	87.5
No	5	12.5
Total	40	100.0

Table 3:- Survey response regarding tax avoidance and evasion  
Source: Field Survey Result (2017)

Regarding the role of tax audit in the reduction of tax evasion and avoidance out of the 45 respondents 35(87.5%) respondents said that tax audit play vital role in the reduction of tax evasion and avoidance while the remaining 5(12.5%) of the respondents respond tax audit does not play vital role in the reduction of evasion and avoidance. To supplement the questioner an interview with team a leader was held and he mentioned that if tax audit is done with well experienced auditors the probability to detect tax evasion and avoidance is high, however, it needs high intelligence and investigation support. Advanced technologies are used to manipulate tax liabilities for instance duplication of receipts, transact without any source document, and making business using E-commerce/on line marketing, the interviewee has doubt about the professional

competency of ERCA's auditors to discover the avoidances and evasions committed by the tax payers because most private companies have employees with better skills and knowledge of auditing than the branch office auditors have, private companies provide different incentive packages to attract highly qualified labor from the market and well experienced auditors from the authority itself and as a result they manipulate the tax laws and regulation in a way that understates the taxpayers' tax liability. Another question was suggestion about the measures that has to be taken by the tax authority to avoid the loop wholes of the laws. ERCA needs continuous amendment of the tax law when it is believed that it has loop hole. When the tax law is developed it should include expertise that have experience in the tax administration.

The ultimate goal of tax audit program	Frequency	Percent
To increase the government tax revenue /direct effect/.	33	82.5
To increase the compliance level taxpayers' to the tax laws.	26	65
To create deterrent effect on non compliant taxpayers/indirect effect/.	5	12.5
To detect tax evasion and avoidances	14	35

Table 4:- Survey response regarding role of tax audit  
Source: Field Survey Result 2017

N.B. Figures do not sum up and multiple answers were possible

As indicated in the above table 33(82.5%) responses reveal that the ultimate goal of tax audit is to increase the government revenue, 26(65%) responses to increase

compliance level of taxpayers, 5(12.5%) responses to create deterrent effect on non compliant taxpayers/indirect effect/ and ,14(35%)response reveals to detect tax evasion and avoidances. In summary the significant responses indicate the ultimate goal of tax audit is to increase the government revenue and to increase the compliance level of taxpayers.

How many times does your business audited by ERCA auditors?	Frequency	Percent
Two time	22	5.2
Three time	97	22.7
more than 3	307	72.1
Total	426	100.0

Table 5:- Survey response regarding audited businesses  
Source: Field Survey Result 2017

As indicated in the above table 5, out of 426 taxpayers respondents 22(5.2%) respondent were audited two times, 97(22.7%) taxpayers were audited three times and

307(72.1%) of the taxpayer were audited more than three times. In summary majority of the taxpayers who fill the questioner were audited more than three times.

## VIII. CONCLUSION AND RECOMMENDATIONS

### A. Conclusions that are drawn from the findings of the study:

Continuous training and development for tax auditors are necessary to improve their technical knowledge, communication, and audit skills; however, from the above findings it can be concluded that lack of training and development makes tax auditors incompetent. As discussed in the literature part Technology may 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, has significant role in improving the tax administration. Technology may reduce opportunities for corruption by reducing the face-to-face interaction between taxpayers and taxing authorities. The study concluded that the tax authority has weakness in the application of IT in its tax audit to its maximum capacity to get the above stated benefits.

Literatures on tax compliance indicate that taxpayers' education is mandatory to promote voluntary compliance and Taxpayer education is among the major tax audit policy and strategy of ERCA to improve the compliance level of taxpayers; however, the audit department is not effective in providing tax payers education. Furthermore, it was evident from the findings that Penalties were viewed as ineffective in influencing compliance behavior, unless supported by taxpayers' education.

Studies on tax audit show that it plays greater role to increase tax revenue, to create deterrence effect, to improve compliance level and to detect tax evasion and avoidances, however, from the above findings of the study concludes the tax audit is not organized in the way to address these.

From the findings the researcher realized that the tax laws have vagueness, the payment system is lengthy and the filling is complex.

### B. Recommendations

From the discussion and conclusion the researcher learnt that tax audit needs competent audit work force and high IT supported to deal with tax avoidance and evasion, to improve the tax compliance level and to increase the tax revenue. Therefore, based on the findings of the study the following recommendations are provided to achieve an effective and efficient tax audit:

- ERCA should improve the standard of tax audit personnel and strengthen the capabilities' of its tax auditors by providing different trainings on the areas of tax laws, auditing, investigation and IT so that they can undertake their duties without difficulties and can tackle tax avoidance and evasions problems in a better way.
- The tax authority should improve the public awareness of the importance of tax payment and the effect of non-tax payment, so that the level of compliance can be improved and non-compliance will be minimized in

addition to this intensive training and awareness creation programs should be prepared.

- Tax audit should aimed at reducing the problems of tax evasion, tax avoidance and other tax irregularities for standardization to improve the level of filing, payment and reporting compliance.
- Tax audit should get support from the intelligence and investigation department when needed so that audit could be done based on risk management.
- Penalties should be used in combination with other measures such as taxpayers' education and services in order to achieve greater compliance.
- There should be strong commitments from top management to support the tax audit to operate independently.
- ERCA should improve the net work quality which is the serious problem in providing fast services to its customers and case for audit should be selected using data from SIGTAS rather than screening committees so that biasness can be minimized.
- Tax authority should continuously review the tax laws so that the loop hole of the laws can be addressed without adversely affect the tax revenue of the government.

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