

# Assessment of Vat Audit Practice In Ethiopia: A Case Study of Ethiopia Revenue Custom Authority in Arba Minch, Gamo-Gofa Zone

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## Abstract

Proper Value Added Tax (VAT) auditing is a base for revenue of the Ethiopian economy. There is need to correctly assess and collect by the concerned government authorities. Researcher has conducted study on the assessment of VAT auditing in Ethiopia Revenue Custom Authority (ERCA) Arba Minch Gamo Gofa Zone. The researcher has collected data for the study from both primary and secondary sources. The data gathered use qualitative description and analysed in a proper way to get the results. The quality of ERCA VAT auditing is highly questionable because of the low right man power quality cum inexperience and poor co ordination among VAT audit employees. Based on results, it is suggested that Ethiopian government should take proper steps to overcome the limitations for improvement of revenue.

**Keywords:** VAT; ERCA; Employees; Assessment; Revenue; Tax; Organization.

## Introduction

The government of any country in the world needs revenue to the finance public goods and services by highly raising fund through taxation. Tax is the amount charged (levied) by the government on a product, income or activity. If tax is levied directly on personal or corporate income, then it is direct tax. If tax is levied on the price of goods or services, then it is called an in direct tax (Misrak 2001). Tax is compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all, without reference to special benefits coffered (Seligman 2001).

Taxes are the back bone of any political-economic regime. Constraints on governments power to tax is constraints on its power to act.

The levying and collecting of taxes are, therefore, the central function of governments in all countries. The levying and collecting systems and methods obviously vary widely according to the political, economic and social characteristics of individual country (Misrak 2001).

Taxation is the earliest and most prevalent form of government interference with economic life of individuals and business enterprise in which a country adopt should be easy and in expensive to administer tax payers shall also able to determine they are actually paying so that the political system can more accurately reflect the preferences of individuals (Yohannes Mesifin 2009).

VAT was invented in 1954 by a French economist Maurice Caurie who was joint director of the French tax authority. The owner way of raising government revenue under the tax system is value added tax (VAT) (Misrak 2001). Value added tax (VAT) is a consumption or expenditure tax charged on the value added to goods and services by importers, manufacturers and traders at each stage of the production and distribution in process (S. Shoup 1969). VAT audit is a key function of the government authority in order

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to assure the function performance in a proper way.

Ethiopian Revenue Custom Authority (ERCA) Arba Minch, Gamo Gofa Zone is one of the tax administrations and also VAT audit bodies responsible for the administrating federal revenue. Therefore, ERCA has responsibility to test the VAT auditing system in accordance with audit laws and regulations.

### *Statement of the Problem*

VAT plays an important role in a given country by avoiding different unimportant effects. Even though the unlimited burden of VAT falls on the final consumer, the government collects it from all sectors. In addition to VAT register person has maintained appropriate records on their sales and purchase transaction those obligations make feel VAT payer less burden of tax. Furthermore, it encourages investment and potential investors to consider tax legislation as one of the factors in making investment decision (Yohannes Mesfin 2009).

This study conducts in how the appropriate way and techniques vat audit administration in Ethiopia Revenue Custom Authority (ERCA) Arba Minch Gamo Gofa zone practice in accordance with audit policies and procedures.

How it can control for delaying and making complex of financial reporting and also miss-controlling of VAT audit service in ERCA in Arba Minch, Gamo Gofa Zone. So that, it is important that VAT auditing is the key function of perform their roles as much as possible. Therefore, by taking this in to consideration the research aim to evaluate the vat audit function and to measure its performance in Ethiopia revenue custom authority (ERCA) Arba Minch Gamo Gofa Zone.

### **Objectives of the Study**

The overall objectives of this study are to

assess the VAT auditing practice in the Ethiopia Revenue Custom authority Arba Minch Gamo Gofa Zone and specific objectives are:

- To review the detection and prevention of VAT fraud performed by auditors.
- To ascertain the major cause of poor VAT audit
- To review compliance with company procedures and policies of VAT.
- To forward appropriate recommendation based on the findings.

### **Research Methodology**

To assess the data collected, methods applied and analyze the performance of ERCA Arba Minch Gamo Gofa Zone, the researcher used mixed research approach to accomplish a suitable interpretation. The Mixed method research design i.e. a procedure for collecting, analyzing and mixing both quantitative and qualitative research.

The qualitative assessment was to distributed mixed questionnaire. The researchers distribute the questionnaires for all VAT auditors. The distributed questionnaires are 11 all are answer properly.

### *Sample Size and Sources of Data*

In order to get an effective and reliable study, the researcher takes the whole sample population (11 employees) and used census where as for the interview which was only held to the manager would use judgmental sampling method.

In order to achieve the objectives of this study researcher used both primary and secondary sources. The primary data collected from through mixed questionnaires and unstructured interview. The secondary data collect from organizational documents and relevant literatures.

### *Scope of the study*

The study is delaminating to the vat auditing practice on Ethiopia revenue custom authority Arba Minch Gamo Gofa Zone. This VAT audit of Ethiopia revenue custom authority time wise the study will be focus on the time ranges from 2001 to 2005 consecutive years.

### *Limitation of the Study*

- Lack of proper secondary source relates to the study.
- Lack of organized documents and finally, reliability of the data use in this study depends on the accuracy of record keeping system.

### *Review of Literature*

'Accounting' is defined as the process of identifying, analyzing, measuring, recording, communicating and interpreting the financial transaction of any economic enterprise (Warren, Fees 1969). 'Accounting system' is concerned with design and implementation of the procedures for the accumulation and report of financial data. The system account must devise appropriate checks and balance to safe guard business properties and proved for information follow that will be efficient and help to management. 'Auditing' is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent and independent person (Arens 2003).

### *Internal Control System*

Internal control means, not only internal check and internal audit but the whole system controls financial and otherwise, established by the management in the conduct of a business in an orderly manner, safeguard its assets and maintain the accuracy and reliability of its operations and records (N. Ricchiute 1982).

### *Nature and Definition of Auditing*

Auditing in the ordinary sense means the official examination of accountant. It is checking of accountant of this business for a particular purpose. Auditing is a systematic examination of the books and records of a business or other organization, in order to ascertain or verify, and to report up on the facts regarding its financial operations and the result there of (Montgomery 2000).

It is an examination of the books, accounts, and vouchers of a business, as well as enables the auditors to report whether he is satisfied that the balance sheet is properly drawn up, so as to give a true and fair view of the state of affairs of the business, and that the profit and loss account gives a true and fair view of the profit or loss for the financial period (Spicer and Pegler 2000).

### *Types of Auditing*

*A. Financial Statement Audit:* is conducted to determine whether the overall financial statements the information being verifies are stated in accordance with GAAP.

Although it is common to conduct audits of financial statement prepare using the cash bases or some other bases of accounting appropriate for the organization. The financial statement most of includes are the statements cash flows including accompanying foot notes (Wittington 1989).

*B. Operational Audit:* is a review of any part of an organization operating procedures and method for the purpose revaluating efficiency and effectiveness at the completion of an operational management normally recommendation for improving operational are normally expected (Wittington 2001).

*C. Compliance Audit:* its purpose the organization being audited following procedures, regulations, policies and rules are established by higher authority (Whittington 1989).

### *What is VAT?*

Value added tax (VAT) is a government tax charged by a vendor (e.g. Developer) who is register for VAT on the supply of good and service which is payable to the receiver of revenue at the standard rate. It is charged as a percentage of prices which means that the actual tax burden is visible at each stage in production and distribution chain. VAT is indirect tax in that the tax is collected by a government from someone other than the person who actually bears the tax (namely the suppliers rather than the consumer). VAT is also a tax on the value that a business firm adds to the things it buys from other firms in producing or distributing its product or services to its customers (Bhatia 2003).

### *Value Added Tax Auditing*

Value added tax audit is the audit understate vat them act depending on state there should limit for vat audit is different. Audit is often the weakest components of vat administration. Irrespective of whether the important of audit function and the faced on implementing audit programs. The initial literature to VAT tensed to minimize administrative difficulties by emphasizing the bulletin checking mechanism of the tax. The considerable evasion vat existing in developing countries methods use to evade VAT including others.

Vat audit is selected verification of tax payers declared tax liability where always involves a review of the tax payers books of accounts, related recorders third party information, general complex pattern of the tax payer and soon(Vat audit 2002).

### *Data Analysis and Interpretation*

This part deals with the major finding of the study. For the data analysis and interpretation purpose the relevant information is gathered from questionnaires distributed to the employees of the organization and interviews to the manager. Finally, the collected data and arranged in appropriate manner, that could be readable and understandable to the reader

by using different analysis and interpretation techniques like percentage and table.

The Presentation of open and closed ended questionnaires is studied in this research project. This questionnaire contains both closed and open ended. The objectives of this questionnaire are to address or to solve the vast and it practice problem in the Ethiopian Revenue and Custom Authority of Arba Minch Gamo Gofa Zone, and to give the organization for conclusion and recommendation depending on these questions and interview.

As indicated in table 3.1, among the respondents 63.63% were male and 36.36% of respondents were female. Participation of employees of female in the organization low and male is dominant.

Regarding to the age distribution of respondents age group was, less than 25 year which has 18.18% followed by age group between 25-30 which was 72.72% and the next 30-35 which was 9.1%, these indicates the organization labor forces incorporated active man power. Regarding to the education level distribution, the respondent's response indicates that all employees are first degree holders. In general, majorities of the employees were productive and actual age group and first degree holders.

As shown in table 3.2 above 81.81% of the respondents are working for VAT audits and 18.18% of the respondents are not ever working .this indicates, based on the respondents the employees ever working in the organization.

In table 3.3, the data indicates that depends up on the respondents result 81.81% of the respondents said that "yes" and 18.18% of the respondents said that "no". There for the researcher concludes that ERCA Arba Minch Gamo Gofa Zone VAT audit and its practice operates effectively by applying well established planning procedures.

In the above table shows that 9.1%. Of the respondent states that VAT auditing rate of effectiveness is at a very good level. 72.72% of the respondent said that "good" effectiveness and the rest 18.18% said its effectiveness is