

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Nepal is a land locked country. It is surrounded by India from three directions east, south and west and China is in the north side of its boarder. “Its total area is 147,181 square kilometers and its total estimated population is 28,951,852(July_2010_est.) (www.nepal.alloexpat.com). Its per capita income is \$ 562 (<http://en.wikipedia.org>). “After some big factories closed down and some foreign investors shifted their factories abroad, the message spreading around is that the investment climate in Nepal is worse than in the neighboring countries. Security situation is cited as the major hurdle. The dismal rate of Gross Domestic Product (GDP) growth that stood at mere 4.6 percent (in producer’s price) in the year ended on mid-July 2010 is offered as the further proof. This rate is far lower than in any other South Asian country” (www.gfmag.com)

“When the government decides on the taxes that it collects, the transfer payments it gives out, or the goods and services that it purchases, it is engaging in fiscal policy” (*Dahal: 2004*). In economy, there is very high importance of fiscal policy which is one of the major determinants to decide about the taxation system, which is adopted.

“There is a huge imbalance in the fiscal system. The tax system has not been implemented properly. It has been very distortive, giving only rise to rent-seeking activities. The economy has not been functioning as efficiently as would be the case under a neutral tax system” (*Khadka: 2000*)

A tax system plays a vital role in functioning of fiscal policy in economy. “In simple words, fiscal policy concerns itself with the aggregate effect of government expenditures and taxation on income, production and employment. In other words, it refers to the instruments by which a government tries to regulate or modify the economic affairs of an economy keeping in view certain objectives” (*Lekhi: 2006*). Fiscal policy is a governmental policy to regulate aggregate economic activities.

Some goals of macro economic is achieved through fiscal policy such as high economic growth, full employment, price stability, equity, favorable balance of payment, etc.

“Taxation is a powerful instrument of fiscal policy in the hands of public authorities which greatly affect the changes in disposable income, consumption and investment. An anti-depression tax policy increases, disposable income of the individual, promote consumption and investment”
Lekhi: 2006)

“The Romans applied a general sales tax to goods sold in market or by auction”
(Grabower: 1962). The reason was to introduce the tax fell into a major pattern and since then the regime of sales tax had been popular in Europe, America and Asia.

“The depression had reduced revenue from other taxes and at the same time need of relief was increasing. The sales tax, its low rates; large yield was a relatively painless collection and was especially attractive. The post-war period also shows increasing trend towards adoption of sales taxes virtually in all countries of the world”
(Terra: 1990)

The idea about the concept of a tax on consumption has changed in recent time. It was thought that consumption tax should not cover the consumption in more literal sense, the character of the tax would therefore result in taxation not only of the consumption of goods by private persons but also in taxation for the use of machines in production. This ideal income type of value added tax (VAT); was to reduce the weakness of sales, for the purposed to reduced, a new modern tax shortly named VAT introduce for the removes the evil of sales tax. The Ninth Plan for increasing the revenue collection Tax Reformed Program was introduced.

The definition of tax auditing in United States of America (USA) is as follow:

“Inspection of the accounting records and procedures of businesses, government unit, or other reporting entity by a trained accountant, for the purpose of verifying the accuracy and completeness and of the records. It may be conducted by a member of the organization (internal audit) or by

an outsider (independent audit). A CPA audit determines the overall validity of financial statements. A tax (IRS) audit determines whether the appropriate tax was paid. An internal audit generally determines whether the company's procedures are followed and whether embezzlement or other illegal activity occurred". (www.auditnet.org/docs/VAT.pdf)

1.2 Focus of the Study

The Nepalese Tax System is first major and comprehensive study on the tax policy and tax administration including domestic tax system of Nepal which discuss the principle of taxation, tax administration and structure of tax system concerning to VAT, income tax as well as non-tax revenue and grants also.

The concrete focus of this study remains on structure of VAT. The immediate objective of VAT is to broaden the tax net so that the network of structure would be increased and as a result the amount of revenue also increases.

"VAT means "VAT", which means that the tax is payable only on value added at each stage and on the gross sales price" (K.C: 2006). VAT is a specific type of turnover tax levied at each stage in the production and distribution process. It is a certain percent taxes levied on the price, firm charge the goods or services it supplies.

1.3 Statement of Problem

There were very challenging phenomena before the implementation of VAT in Nepal. There were fear that whether it could achieve its goals or not. Although there were many hurdles, it came in existence to have a sound revenue administration in Nepal.

"Nepal Introduced VAT in 1997 for several reasons. One of the important reasons was to develop a stable source of revenue by broadening the tax base. It must be noted that Nepal had been gathering bulk of its tax revenue from import duties. But as stated earlier, the relative importance of customs duties has been decreasing due to the reduction in import tariff in line with the liberal economic policies

adopted since 1992/93 and line with the customs duties reform taking place around the world in general and India particular since the early 1990s. Nepal will have to become less dependent on international trade and taxes for its revenue in the future, since it will not be in position to levy important duties on trade that takes place within the SAARC region after the implementation of the South Asian Free Trade Area. Nepal has applied for the membership of the World Trade Organization, which will also have to be considered in this context” (Khadka: 2000)

The problem of the study is that Inland Revenue Department management has been giving top priority to the audit and investigation so as to raise the billing habit of the taxpayers but the result has not been as desired. Moreover, operating of this tax system is based on self-assessment but the qualities of tax returns are not so good and it does not represent the fare, true and correct statement of the books of accounts. The primary objective to introduce such modern tax system was to enhance revenue and to improve the tax system as efficient, transparent, neutral, uniform, simple system and revenue potential. The introduction of modern technology such as computer in tax administration will make it paper less working environment and will also help to established management information system in Inland Revenue Department which directly increases the decision – making quality by and reducing the time for the decision – making and establish strong administrative culture based on field works and deduced table works.

1.4 Research Question

An effective and efficient audit system should be applied to have control over the tax avoidance and evasion as well as inspires to pay tax in regular basis to taxpayers. It has been necessary to find out whether the tax audit system is working in systematic manner or not. Thus, the first research question is ‘*is tax auditing system adopted by taxpayers and Inland Revenue Department in systematic manner?*’

1.5 Objectives of Study

This study was carried out in fulfillment of the requirements for the Master Degree in Business Studies as well as to judge the present performance of audit function of Inland Revenue Department and to suggest recommendations for reforms. However, the following specific objectives have been set for the study: -

-) To examine the tax administration system in Nepal.
-) To examine the self-assessment function as per the set rules prescribed in VAT Act and Rules.
-) To find out the tax auditing procedure in respect of VAT.
-) To find out the contribution of VAT to government revenue in Nepal.
-) To identify the problems and challenges faced by the tax officer and tax payer.
-) To recommend appropriate solution and suggestions.

1.6 Significance of the Study

VAT is a kind of indirect tax. "It is only through indirect taxation the vast majority of the population in developing countries can contribute to revenue" (*Lekhi: 2006*). There are many arguments in favor of VAT on the one hand and there were too many arguments against of VAT in Nepal on the other hand.

"The business community has been very hostile to VAT from the very beginning. While they could not challenge the principle of VAT, they are repeatedly saying that this tax is inflationary, complicated, and are not suitable for Nepal. Since the opposition continued even after the introduction of VAT, many big vendors did not register by the due date" (*Khadka: 2000*)

There is incredible importance of indirect tax such as VAT to generate revenue having participation of a large number of populations. But there is equally a great threat to convince the taxpayers and it has very challenging to show the importance of VAT because of the lack of knowledge about taxation system regarding VAT. It is seen that the government has not been succeed to make easy the tax administration and tax management system so that all stakeholders could

get knowledge about it and could give their big hand on the effective implementation of tax system.

Some studies have been made regarding the VAT. This study is going to be conducted to add a brick in the pile of knowledge. This study shall be beneficial to: tax experts, tax administrator and government to control the tax evasion, avoidance and effective tax collection, university students, further researchers, teachers, policy makers, auditors and other interested persons who have great will to establish a fair and sound tax system.

1.7 Scope of the Study

As stated earlier, for the tax environment, the role of tax system is very important; VAT is the major part of the Government revenue. Though, if we analyzed and find the major strength and loopholes in the tax system, the government revenue could be walk towards flourishing trend. We know that tax system is formulated form the combination of sub-systems i. e. tax policy, tax act, and tax administration. Where, tax administration plays the vital role.

So, this study covers tax auditing system in Nepal and specially concerns to VAT. Find out the problems and prospects of the VAT in Nepalese tax system and its legal aspects. It also gives an overview of Income Tax act 2058; VAT Act 2052 and budget speech of Nepal government as policy matter. Apart from this study also conducted to find out contribution of VAT to government revenue, degree of tax audit contribution on revenue and review the tax auditing procedures in Nepal.

1.8 Limitations of the Study

Time limit given by the research department of Tribhuvan University (TU) and other factors which are beyond of our access create limitation on the study in certain boundaries. This study has some limitations, which are as follows: -

- i. This is only concerned in tax auditing system in Nepal with regards to VAT.

- ii. Data used in this study will primary as well as secondary. Primary data will be collected through questionnaires and secondary data will be collected from economic survey published by Ministry of Finance, the annual report of Inland Revenue Department (IRD) and other related published and unpublished resources.
- iii. Resources constraint is another major factor which limits the scope of the study.

1.9 Organization of the Study

This study will be organized into five chapters considering the format as designed by Tribhuvan University to make the study more systematic and authentic. They shall be as follows: -

Chapter 1: Introduction: This chapter will consist of background of the study, focus of the study, statement of the problem, research question, Objectives of the study, scope of the study, limitations of the study and organization of the study.

Chapter 2: Conceptual Framework and Review of Literature: This chapter will include conceptual and theoretical review of related literature and studies.

Chapter 3: Research Design: This chapter will include research design, population and sample to be studied, data collection procedures, data analysis tools and chapter plan.

Chapter 4: Data Presentation and Analysis: This chapter will provide presentation and analysis of secondary data as well as survey data.

Chapter 5: Summary, conclusion and recommendation: This chapter will express the summary of the study, conclusion and possible recommendation of the study in systematic manner.

CHAPTER – II

CONCEPTURAL FRAMEWORK AND REVIEW OF LITERATURE

The purpose of reviewing the literature is to develop some expertise in one's field of knowledge to see what new contribution can be made to receive some ideas for developing a research design. Their relevant finding issues arguments logics and suggestions, which shall give a glimpse guide line to go further depth of the study. In other words there has to be continuity in research. This continuity in research is ensured by linking the present study with the post research studies.

2.1 Conceptual Framework

There are various sources of revenue for public finance. Among them tax revenue occurs a significant portion. Tax is a permanent and major internal source of public finance. Ignorance of law is no excuse. The law itself never discriminates people. It is equally enforceable to everybody. Nobody can escape from the liability that rises as per law.

2.1.1 Background

The launching of all programs of government depends first and foremost on the treasury. When the concept of welfare state came in existence in the world, the major liability of government has increased and the government is devoting to deliver the various facilities to the people as far as possible to earn more faith and ensured that government is always ready to do anything if it needs to people. So, a large amount of money needs for the work of government for the efficient operation of government. The government collects the revenue from different sources such as *tax, remittance from public enterprises, fees, fines, grants and deficit financing in annual budget*. However, across all these sources of collecting the public revenue, taxes are the major source since it occupies the remarkable portion of government treasury.

2.1.2 Tax Auditing Procedures in Nepal

The tax auditing manual framed by Nepal Government in 2003 for tax auditing especially VAT and Income Tax has clearly framed the rules and procedures with an objective to make tax auditing system more uniform, fair, and transparent and result oriented.

2.1.2.1 The Purpose of Auditing

The purpose of audit is validating the tax liability declared by a taxpayer. It is also process that generates tax liability by examining the records of financing transaction of tax payer who has not declared tax liability correctly. In self-assessment system, taxpayers have to prepare correct financial report and pay tax liability in time. However, most of the taxpayers fail to prepare financial report correct financial report and did not try to pay tax in time. It becomes necessary to examine those taxpayers who failed to prepare report in time correctly. In such case tax officials should be able to detect unreported liability and taxpayers. As a result, the taxpayers are compelled to pay tax, fine and penalties as per law.

The major purpose of conducting auditing is to:

-) Verify any tax returns on hand and confirm that the declared amount of tax is correct and has been paid
-) Carry out off checks and observations to detect error, evasion or fraud
-) Examine the tax payer's accounting system, production, business activities and sales method
-) Ensure that the taxpayer understands his liability and rights under the tax system
-) Provide necessary advice which are concerned about tax and auditing

2.1.2.2 Types of Audit

An audit is generally conducted as a periodic control of the taxpayers purchase and sales books, value added account, stock book, submitted vat returns, income tax returns, business accounts and final accounts, if maintained. Simply, the types

of audit are classified as verification of visit, partial Audit, full Audit, link Audit, joint Audit, pay roll Audit and investigation Audit. These can be explained as follows:
(*Audit Manual: 2003*)

- J) **Verification of Visit:** This type of audit is mostly used when a taxpayer request for VAT refund because of credit carried forward for a continuous period of six months or in the case of exports. It is also used as guiding visits to newly registered taxpayers and de-registration of taxpayers. It can also be used for income tax purpose.
- J) **Partial Audit:** Sometimes, it may be necessary to audit only a part of business transaction in relation to VAT and income tax of a particular taxpayer. For example, there is a possibility of misusing credit facilities in the case of mixed transaction. So tax auditors may only audit documents relating to credit in order to minimize the risk of the loss of revenue from the miscalculation of tax credit. As for income tax partial audits can also used for verification of procurement of larger investments, e.g. vehicles and construction of buildings.
- J) **Full Audit:** All the taxpayers' taxable activities are verified under the full audit based on risk analysis. If the full audit covers income tax, it should as a general rule include pay roll audit in case of employee. Full audit covers either VAT or income tax. Instead of conducting full audit, it is considerable to begin joint audit as far as possible. In case of de-registration, full audit is conducted. If it is guessed that there is chance of loss of revenue or to be low, the tax officers may take advice from their senior while conducting the operation and taking action against full audit. Seniors take decisions after monitoring and evaluating the taxpayers' returns, existing information about the taxpayer and revenue risk.
- J) **Link Audit:** Link audit is a type of audit, which is mainly used to examine internal transactions between the businesses. The main purpose of link audit is to examine the correctness of valuations in

connection with internal transactions. This type of audit can also be used for cross checking transactions between taxpayers.

-) **Joint Audit:** Joint audit is an audit for auditing all types of taxes. This type of audit will normally include pay roll audit. As a rule this type of audit is the most extensive and hence, the most time consuming one.

-) **Payroll Audit:** The main purpose of this audit is to ensure that the employer withholding income tax from all paid up salaries and taxable benefits to the employees. So, this audit is concentrated on the employer's withholding taxes.

-) **Investigation:** Investigation is carried out in the case of fraud. Penalties and fines are charged if any fraud has been made. It is little bit difficult to conduct and time consuming but sometimes to minimize the tax evasion it should be conducted.

2.1.2.3 Selection of Taxpayers for the Purpose of Tax audit

It is difficult to identify the taxpayers upon whom audit should be conducted. Tax audit strategy of tax department is the basis upon which selection of taxpayers are depended. Due to the weak implementation of tax audit strategy, present scenario, available resources and risk analysis have been the bases for selection of taxpayers for the purpose of tax audit.

Reliability, compliance, credibility, accounting complexity, likelihood of fraud, revenue risks, status of business are another criteria. Regarding these criteria tax audit is conducted.

Information received via computer system of VAT is another indicator through which the probable taxpayer to whom tax audit can be conducted is identified.

2.1.2.4 Methods of Audit

Audit is based on internationally accepted audit methods for both public authorities and private companies conducted by certified and authorized person under the

prescribed rules and regulations by government. Tax returns and other related documents which are prepared are checked, the uniformity and consistency of these documents are examined in systematic manner. These document and authenticity is checked comparing with similar types of documents of other taxpayers who are connected in any way. In other words, information received from taxpayers may be verified by comparing with the information collected from internal and external available sources. The information collected mainly from the cross checking procedures and other Inland Revenue Offices (IRO) and concern offices of Nepal Government and Private Enterprises. For example, to check number of car sales of dealers, the number of registered vehicles in transportation department is considered taken. Accounts are verified by physical inspection that is stock can be checked by tax officers on the spot (taxpayer's premises). The authorized tax officers can visit to the taxpayer's premises to confirm the business activities which are operated under the prescribed rules and regulation or not. (*Audit Manual: 2003*)

2.1.2.5 Measurement of the Result

Inland Revenue Department has designed an audit planning with effective operation to the greatest possible extent to have desired result and it is necessary to measure and follow-up the result. The uniformity and maintenance of standard are major problem while conducting tax audit. Each division or offices are informed through circulation to maintain uniform standards by the Inland Revenue Department.

The following elements are consisted to measure the result: (*Audit Manual: 2003*)

-) Number of completed audits
-) Recovery of revenue
-) Refund of taxes
-) The controlled turnover
-) The controlled total salary through pay roll audit
-) Measure of audit assessments that are appealed
-) Measure of each audit type

2.1.2.6 Frequency of Audit

Frequency of audit depends on the type of audit. Verification visits are to be made on as required basis in the first instance. If there is chance of revenue loss or any type of evasion, audit can be conducted at any time. Since verification visit is used as a tool to educate newly registered taxpayers, it is desirable to visit the premises of taxpayers in the stage of their registration. These visits are also made when there is a claim for refund of tax, either claimed by an exporter or a taxpayer who is in VAT credit position for a period of six months. It is very difficult to point out about the number of times that is visited for this purpose. It means the frequency of audit cannot be predicted exactly. Full Audit and Joint Audit are time consuming and prolonged types of audit because it needs long process and have to examine in-depth of the taxpayer's assessment of taxes for more than one fiscal year. Generally, Full Audit and Joint Audit are conducted in three years interval.

2.1.3 Legal Provisions for Auditing

Legal Provisions regarding the Auditing Procedures are governed by the provisions that are mentioned in Income Tax Act, 2058 and VAT, 2052.

2.1.3.1 Book Keeping and Accounts

There is clear provision regarding the record keeping and information collection in Income Tax Act, 2058. As per Income Tax Act, 2058 clause (81): -

81(1) every person liable to tax under this Act shall maintain in Nepal documents of the type, form, and certification prescribed by the Department including the following documents:-

- a) Documents that are necessary to explain information to be provided in a return or in any other document to be filed with the Department under this act;
- b) Documents that enable an accurate determination of the tax payable by the person; and
- c) Documents that substantiate deductions and outgoings.

81(2) the documents referred to in this section must be retained for a period of five years from the end of the income-year or years to which they are relevant unless the Department otherwise specifies by notice in writing.

81(3) where any document referred to in subsection (1) is not in Nepali, the Department may, by notice in writing, require the person to provide, at the person's expense, a translation into Nepali by a translator approved by the Department in the notice.

81(4) the Department provides approval to maintain documents through electronic medium which are to be maintained pursuant to Sub-section (1).

Similarly, it is clearly stated in the VAT Act 2052 section (16) regarding accounts of transactions to be kept as follows: -

16(1) a taxpayer shall maintain an up-to-date accounts of his/her transactions of the tax period under Section 18 and such accounts, wherever placed shall be made available for inspection to the Tax Officer on his/her demand.

16(1A) the department can have access to the computer data base.

16(2) the following matters shall also be included in the accounts so maintained by the taxpayer:-

- a) Date of transactions;
- b) Registration number, Value of each transaction;
- c) If the other party of the transaction is registered; and
- d) Other prescribed matters related to transaction.

16(3) a registered person shall use, for the purpose of keeping accounts, the purchase and sales book certified by the concerned Tax Officer.

16(3A) unregistered person who transact taxable goods or service, shall be approved purchase/sales book by him/herself. That book shall be inspected anytime by Tax Officer.

16(4) every taxpayer shall preserve the accounts of transactions for a period as prescribed.

16(5) the accounts maintained by a taxpayer by fulfilling the procedures specified by this Act or the Rules framed hereunder shall be recognized unless proved otherwise.

2.1.3.2 Inspection and Audit

The VAT, 2052 clause 23 states some provisions regarding power of inspection and audit that is authorized to the officers as follows: -

23 (1) A tax officer may examine, if there is a reasonable ground to believe that a taxpayer required to be registered under this Act has been involved in a taxable transaction without being registered.

23 (2) In order to examine as per sub-clause (1), verify the tax return submitted by a registered person under clause (18) and assess the tax under clause (20) a tax officer shall have the following powers;

- a) To inspect all goods, premises, documents, records books and accounts relating to the liability for tax;
- b) To search a taxpayer's place of transaction and other places, if he/she has ground for suspecting to possess evidence related to any offence under this Act;
- c) To require, in pursuance of discharging his/her own duties, information from a person who prepare any records, books, accounts or other documents or make entry therein;
- d) To take possession of, remove and transfer any documents, books and records from the taxpayer's transaction place and other transaction places related thereto; and
- e) To perform audits at the taxpayer's place of transaction, at a tax office, or at any other appropriate place.

23(3) if a tax officer requests any person, including a bank or financial institution for access to any information about taxpayer's transactions, it shall be the duty of such person to furnish such information to the tax officer.

Similarly, clause 82 of the Income Tax Act 2058 authorizes a tax officer to examine the books and records at the premises of any registered or who has to be registered. The provision is as follows: -

82 (1) For the purpose of implementing this Act, an officer of the Department can do the following: -

- a) Shall have, without any prior notice, full and free access to any premises, place, document, or other assets situated in Nepal;
- b) May make an extract of copy, including an electronic copy, of any document to which access is obtained under paragraph (a);
- c) May seize any document to which access is obtained as per section(a) that, in the opinion of the officer, provide evidence that may be material in determining the tax liability of any person under this Act; and
- d) May, where a copy of a document is not provided upon request by a person having access to a document, seizes an asset to which access is obtained as per Section (a) that the officer reasonably a suspect contains or stores the document in any form.

2.1.3.3 Tax Assessments

Section 20 of the VAT 2052 states the cases when a tax officer may make an assessment. As per this section, followings are the cases: -

20 (1) A tax officer may make an assessment in any of the following cases:

- a) If return is not submitted within the time limit;
- b) If an incomplete or erroneous return is filled;
- c) If a fraudulent return is filled;
- d) If the tax officer has a reason to believe that the amount of tax was understated or otherwise incorrect;
- e) If there is a reason for tax officer to believe that under invoicing has been done;
- f) In case supply with under billing to group companies;

- g) If any person required to registration, does transaction without registration.
- h) If sell without raising invoice; and
- i) If unregistered person collect tax.

Clause 99, 100, 101 and 102 of the Income Tax Act, 2058 are related to Tax Assessment purposes.

Clause 99 is treated to a person who has a taxable income in an income year (clause 3 a) and a foreign permanent establishment situated in Nepal of a non-resident person that has repatriated income for the year (clause 3 b). Clause 100 is for Jeopardy Assessment, clause 101 is for Amended Assessment and clause 102 is for Notice of Assessment.

2.1.4 Tax Auditing Preparation

Preparation regarding the tax auditing begins with establishment of the reasons that made to visit for tax auditing. The place where should be moved, how to be mentally prepare to cope with coming challenges while performing the duty of tax auditing.

2.1.4.1 Audit – Visit Program

The Inland Revenue Offices also prepare their audit visit programs for the year to come. Such programs will be generated by computer on the basis of the information in the computer system. The visit list is to be allocated to each team by the chief of the Inland Revenue Office. The officer in charge will allocate an appropriate part of the list to each team leader, who will be responsible for deciding which of the taxpayers on the list will be visited. Each team will make the necessary arrangements. It is necessary to discuss with the chief of the Inland Revenue Office about various aspects of audit. It is also important to maintain close contact with the collection section in connection with audit.

2.1.4.2 Appointment for Visit

Taxpayers should be informed before visiting. If information is given of visiting, it doesn't need more time to get necessary documents for the purpose of inspection and check.

2.1.4.3 Visit Cancellations

If any group cancels an appointment then the team leader is to arrange an alternative visit. Cancelled visits are to be recorded in the taxpayer file and he/her is to be visited as soon as possible after the cancellation.

2.1.4.4 Number of Officers in Audit Team

There should be at least two officers in a team. The main responsibilities to conduct audit goes to the team leader.

2.1.4.5 Preparation for Visit

Before visiting to any taxpayer's premises for the purpose of audit, it is important to gather the related information about taxpayer and method that is going to adopt for auditing should be determined very carefully so that with less effort we can get maximum output.

2.1.4.6 General Review of Past Report

A general review shall always be a part of a full or joint audit when sufficient information's are available and such review is not conducted in the taxpayer premises. It is a part of preparation of visit and when there is some reason to consider more carefully the taxpayer's position. It has a great value while verifying a substantial claim for refund of credit.

2.1.4.7 Study of Audited Final Reports

Through a serious examination of the annual reports of a business/organization some possible tax evasion and position of the profitability of the business/organization could be identified. If the profit margin of a business is low, there is chance of having greater of revenue risk. The declaring low margin return by the taxpayer might be profit suppressed on sales; that encourage a business to indulge in evasion to restore its competitive position. So, the examination of Income Statement, Balance Sheet and Cash Flow Statement of present and previous years are important documents in tax auditing for the purpose of full and joint audit.

2.1.4.8 Analysis of Final Reports

The use of ratios is the comparison of the similar results within and outside the organization; moreover, it is also used to compare data of the same organization for the past and present year. The analysis of some rations help to maintain the standard in tax auditing. Although it does not help to prove the degree of tax evasion, it does help to identify the possibility of tax evasion. Thus, ratios are important tool which help to make the auditing more ease.

The common ratios that are used to explore some frauds while conducting the tax audit in Nepal are as follows: -

$$\text{a) Gross Profit} = \frac{(\text{Sales} - \text{Cost of Sales})}{\text{Sales}} \times 100$$

Indicators: Low ration indicates low profit, which could be: -
Inefficiency (due to high cost of production), Suppression (for reporting reducing sales figure), Competition (reduction of sales price)

$$\text{b) Stock Turnover} = \frac{\text{Cost of Goods Sold}}{\text{Average of Stock}}$$

Indicators: Lower the ratio; lower the volume of sales or high purchase

$$\text{c) Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Indicators: Ratio equals to 2: 1, sound management of current assets and current liabilities.

$$\text{d) Quick Ratio} = \frac{\text{Current Assets} - \text{Stock}}{\text{Current Liabilities}}$$

Indicators: Ratio equals to 1: 1, sound management of quick assets and current liabilities.

$$\text{e) Net Profit Margin} = \frac{\text{Net Profit Before Tax}}{\text{Sales}} \times 100\%$$

Indicators: Low ration indicates low profit, which could be: -
Inefficiency (due to high in total cost),
Suppression (for reporting reducing sales figure), Competition
(reduction of sales price)

$$\text{f) Average Collection Period} = \frac{\text{Average Debtors}}{\text{Credit Sales}} \times 365$$

Indicators: It shows the period needs to collect cash from debtors.
Long period means low cash inflow
Short period means high cash flow

$$\text{g) Debtors Turnover Ratio} = \frac{\text{Credit Sales}}{\text{Average Debtors}}$$

Indicators: High ratio shows low problem in cash collection
Low ratio shows high problem in cash collection

2.1.4.9 Necessary Documents for Auditing

The taxpayer's file and papers, identity card of officers, a copy of manual, a note book, a calculator, a stock of checklist, a stock of assessment forms, cross checking forms, an audit report, related acts and rules are carried out while all necessary preparation to visit for auditing is completed.

2.1.5 Implementation of the Audit Plan

The implementation of Auditing procedures is most important to achieve the target and to make the visit more fruitful. It is important that how the actions are taken and followed efficiently so that the taxpayers do not realized bore and hamper should not be felt due to the behave of officers.

2.1.5.1 Initial Action

At first, the officers should introduce themselves showing their identity card and assure them that they are visited from tax office and clearly state why they are in the premises of the taxpayer.

2.1.5.2 Officers' Behave

Officers should not accuse and do not raise question upon the honesty of taxpayer directly and immediately as tax defaulter. It is not good to force to get answers from taxpayers. If questions are asked softly regarding the business on the basis of logical manner, there is less chance to hide the information.

2.1.5.3 Examining the Business Premises

It is very important to examine the business premises to generate some idea about the nature of business and it make ease to examine further details.

2.1.5.4 Basic Checking

This check is to be completed on all visits and forms the backbone of the audit. The findings obtained from the basic checking will determine the next course of action for the audit. The activities include: registration; past visit records; audit trial; exports; cash sales; production; external tax report; mixed transaction; income statement and balance sheet.

2.1.5.5 Detail Checking

After completing the Basic Checking the audit team should have knowledge of the operation of the business and the accounting procedures followed by the business. The team should find the area of risk where is chance of revenue loss if investigated in-depth.

Exports, Imports, exempt sales, purchase invoices, sales invoices, value of stock, credit and Debits Notes, cash sales, abbreviated invoice, low value of sales, credit sales, production cost, the mode of payment against purchase, purchase orders, delivery orders, goods on consignment, sales returns, purchase returns, gift received or provided, advance payment, tax paid, tax credit, deduction of various expenses, retirement fund, ceiling of cost incurred, depreciation etc. In other words, the deductions which are deducted are whether as per rules and regulations are examined very carefully to investigate which may help to disclose the revenue loss and high costing.

2.1.5.6 General Review

A general review is an overview of the business with objectives of assessing the viability and effectiveness of the business and the validity of the income tax and VAT paid over a longer period, when compared with the general activities and profitability of the business. In the review the officer will not look at the details of the book keeping process, but will concentrate on ensuring that the activities of the business, such as production, purchase and sales, are all represented in the business accounts and give a balanced picture which accords with the declarations made and income tax and VAT paid by the business over the period.

A general review should be conducted by full/ joint audits when sufficient information is available. It will also be of value, for instance, in verifying a substantial claim for refund of VAT credit.

2.1.5.7 Post General Overview Function

In completion of the audit the officers should: -

-) Confirm that sufficient notes covering all the action taken during the visit are recorded. It is necessary to have details of action to complete the audit report.
-) Summarize all the irregularities disclosed. Try to assess the probable tax figure at the place where audit is conducted. If it is not possible to come at the approximate figure for assessment, gather the necessary information so that it shall be easy to make calculation later.
-) It is better to inform about the findings during the audit period to the concern and responsible person at the moment.
-) Make clear about the provisions of related tax acts if there are any query of taxpayers and responsible person.
-) Try to complete an audit report as soon as possible

2.1.5.8 Audit Report

After examining the operations and activities of business at premises of taxpayers through the recorded details in book, a report covering all the defaults and irregularities should be prepared through basic information; general information and audit information are obtained.

2.1.5.9 Audit Preparation

It is necessary to make proper arrangement before writing an audit reporting. The information deriving on the course of auditing must be analyzed, assessed, compared, and should result in a prioritized list of risk areas for main audit areas based on materiality and risk. Furthermore the list must be divided stating audit steps concerning sales, purchases, expenditure, expenses, stock valuation and other areas from the balance sheet and income statement.

2.1.5.10 Audit Result

The audit must be result oriented so as to meet the objectives of conducting audit. The reports must be based on the canon of taxation. The tax report must follow the Arm's Length Principle. The report must be fair, accurate, unbiased and logical with consistent legal provision. The report also includes the information and discussion in any specific topics; large investment items; things to be rectified in next visit. Reports are to be filed in the taxpayers' folder and retained for a minimum of six years.

2.1.5.11 Findings

The disclosed of errors and irregularities should be informed to taxpayers. Any errors leading to underpayment of tax liabilities should be analyzed and the exact amount that should be paid is informed to taxpayers. If the underpayment of taxes cannot be calculated or the tax payer does not agree the tax due, tax payer is to be informed that some books of records are retained for the purpose of recalculation and reconfirmed. A receipt is to be given for any books or records removed from the premises and they should be returned as soon as possible. The date of removal and the date of returned of the books or records are to be recorded on the visit report.

2.1.5.12 Computer Advices-Slip

On completion of any visit the officer is to complete a computer advice slip. This form updates and extends the information held on the computer. The advice slips are to be attached to the report. The tax payer folder, report and advice slip is then to be passed to the leaders.

2.1.5.13 Duties of Team Leader

The duties of team leader are categorized as follows: -

(Audit Manual: 2003)

-) All audit reports completed by a member of his team are to be forwarded through the team leader.

-) Confirm that the work performed is in accordance with the audit plan and the findings of the report are matched the set standards.
-) Confirm that any directions given are correct.
-) Check assessment or additional assessment
-) Method whether there is arithmetical accuracy and justification or not.
-) Verify the computer advice slip and confirm that the information of audit is correct.

The folder and report is returned to taxpayer filing section. Team leader must follow up assessment batch until its entry is made in the computer section.

2.1.5.14 Common Errors

The followings common errors might be disclosed during the course of tax auditing. They are listed below: -

-) Permanent Account Number (PAN) not found in tax invoices.
-) Purchase/ Sales/ VAT account / Tax Invoices not found in prescribed format.
-) Invoice date is placed by customs declaration date.
-) Proper filing of VAT related documents is not found/ scattered in many places.
-) No tax invoice printed in all copies of the invoices.
-) Misuse of debit note and credit note.
-) Claim of zero rate in the sales in case of foreign currency.
-) Posting of exempt/ taxable sales/ purchase.
-) Return filing and total of debit/ credit.
-) Excess credit in return than in purchase account.
-) Lack of original purchase bill.
-) Export documents/ Letter of Credit (L/Cs) / Customs declaration form/ Bank draft, etc
-) No serial number, PAN number printed in invoices/ hand-written.
-) Full credit claim of partial creditable goods. (Vehicles)
-) Credit claims of unauthorized bills.
-) Posting of export in exempted column instead of zero rated.

-) Direct posting in tax return without recording in book of account.
-) Credit claim of the deposited amount in the custom office.
-) Payment in advance is not taxed.
-) Contributions not added to taxable value.
-) Full credit claim of general costs by taxpayers who has both taxable as well as tax exempt sales.
-) All purchase invoices of which input tax has been claimed are not related to actual tax period.
-) Sales invoices from actual tax period accounted for future tax periods.
-) Salary sheet/ wages sheets.
-) Other deductible amounts are not deducted but non-deductible amounts are deducted.
-) Other inclusive amounts are not included but non-inclusive amounts are included.

2.2 Books – Reviews

Italian writer, Luca Paciolo published Double Entry Book Keeping System for the first time in 1494 A. D., he clearly described the duties and responsibilities of an auditor. The value of audit was introduced since the initial stage of accounting development. We could not underestimate the chances of mistake occurred in the process of calculating of taxed of organizations. There would be chance of hiding him real transaction, too. So, it had been very important to have an efficient and effective tax auditing system. Indian writer Tandon, B. N. in his book practical Auditing said that “ In many countries, large business organizations particularly those with public membership were by law to appoint accounts, auditors to prepare and certify the annual returns of tax purpose, tax authorizes carry out routine checking or for investigating suspected miss-administrative of fraud.”

2.3 Meaning of Audit

The word audit is derived in 15th century from Latin word *auditus* “hearing,” from *audit-*, the past participle stem of *audire* “to hear”.

As per the Encarta Dictionary 2009, audit means: -

1. Checks of accounts: - A formal examination, correction, and official endorsing of financial accounts, especially those of a business, undertaken annually by an account
2. Efficiency check: - A systematic check or assessment, especially of the efficiency of an organization or department, typically carried out by an independent assessor

There for the meaning of audit is explained as an examination of records or financial accounts to check their accuracy, an adjustment or correction of accounts and an examined and verified account.

An introduction to Indian Government and Audit issued by Controller and Auditor General the government of India states that audit is an instrument of financial control. It acts as a safe guard on behalf of the proprietor's extravagance, carelessness or fraud on the part of the proprietor's agents, or servants in the realization and utilization of his money or the other assets, and it ensures on the proprietor's behalf that accounts maintained truly represent facts and that expenditures has been incurred with due regularity and propriety. Such agency is called "Auditor".

Audit is an examination and verification carried out by an outside agency that may be a certified accountancy firm or tax authorities of a tax payer's books of accounts and or the general accuracy of returns and declarations either as a routine operation or where evasion is suspected.

2.4 Tax System

Wong wrote his views in the Microsoft Encarta Reference Library 2009 about the Taxation and Representation in Early Modern Europe as follows:

After English barons stormed London in 1214 to protest King John's increasingly heavy—and unauthorized—taxes, the two parties signed a document known as the Magna Carta. This agreement limited the monarch's fiscal demands, guaranteed individual liberties, and provided prompt justice for all citizens. The king subsequently imposed on his highest-ranking subjects the obligation of representing themselves in his Parliament.

In 1302 in France, King Philip the Fair called the Estates-General—a body composed of clerics, nobles, and urban leaders—to approve his taxation of church property. From the 14th to the early 17th century, the Estates-General met from time to time to discuss various issues, especially issues relating to finance. By the 16th century, elites in England, France, Prussia, and Spain had established representative institutions that granted the power of taxation to strong, centralized rulers.

It has become clear that tax is imposed to collect the required financial recourse to handle functions of every state effectively. It is necessary to legalize the method and mode for collection of tax. For this purpose, it should be approved by people so that there would not be any hindrance in collecting tax.

2.5 Evolution of Taxation

It is very difficult to identify the date from when the history of taxation was started. But there is no doubt it has developed parallel with the development of human civilization. Khadka (2006) stated that the history of taxation started with the human civilization.

Khadka (2006) classified the stages of historical development of taxation in to seven stages. They are as follow: -

-) Ancient Great India
-) Ancient Egypt
-) Ancient Greece
-) Roman Empire
-) Great Britain
-) American Tax War
-) Pay –Tax-As-You-Earn

Because Britain had accumulated large war debts, Parliament passed the Stamp Act in 1765. The Act was devoted to collect the revenue for government.

As a protest against a tax placed on imported tea by the British crown, a group of American colonists, led by Samuel Adams, staged the Boston Tea Party. On December 16, 1773, the colonists, some dressed as Native Americans, boarded three British ships and tossed the tea cargo into Boston Harbor.

2.6 Theses and Dissertations

It is very difficult to find published researches on the Nepalese tax system. Some of the college students relating to business administration and public administration were found to have written their *theses and dissertations* in partial fulfillment of the requirements for the Master's Degree. Most of such researches followed the descriptive methods, which emphasized on what dimension rather than how and why dimension. However, the researcher reviews the importances at last. These are closely related with tax auditing are as follows:

) Tax Administration Reform in Nepal

Tax administration reform in Nepal: A Review of services to the large taxpayers is a topic of thesis by Khim Bahadur Kunwar (2005) of Public Administration Campus, TU for Master of Public Administration. The findings of his thesis revealed that over all status of taxpayer services are being provided by Large Taxpayer Office seems to be relatively poor as perceived by respondents through the quality level of taxpayer services slightly improved after the establishment of this office.

) Effectiveness of Self-Assessment Tax System in Nepal

Effectiveness of Self-Assessment Tax System in Nepal is a topic of a thesis by Lal Bahadur Khatri (2005) of Public Administration Campus, TU for Master of Public Administration. The findings of this thesis is "self-assessment system does not effect to the result, for improvement needs to strengthen the self-assessment by awareness through the education, imparting quality training, motivation to the employee and controlling corruption and mal practice of employee and taxpayers."

2.7 Four Years of Implementation of VAT

Four Years Implementation of VAT was published by Inland Revenue Department and Revenue Strengthening Project in 2001 A.D. There was a collection of views of stakeholder relating to taxation. The magazine has given only space to VAT and now to overall taxation system. The researcher believes that such views regarding VAT also help to draw an ideas regarding taxation system in Nepal. Most of the personnel involved were closely associated with tax administration especially in the implementation of VAT and views of renowned stakeholders of political, economical, social and cultural sector of the society including two foreign taxes. The important views were followings:

According to Mahat, Hon'ble Finance Minister; Nepal Government has expressed that "It is difficult to implementation VAT effectively. It was necessary to introduce this with the long-term perspective of developing and appropriate tax system. The implementation aspect of VAT is gradually being stronger. The increase in taxpayer numbers and the collection of tax in the four years of its implementation have been satisfactory and various efforts are being made to make its implementation fully successful." (IRD: 2001). So far as it was observed that there were not enough Homework and sufficient discussion before implementation of VAT in Nepal.

Khadka, a National Tax Adviser to Revenue Administration Support Project, Nepal has expressed satisfaction over the implementation of VAT and he suggested that establishment and development of self-assessment, organization of the taxpayer education programs, functional-based organizational structure, employee training, internal monitoring, application of computerized system and giving continuity to the conventional working style and negotiation based work should be given emphasis and further he suggested VAT administration will make the entire Nepalese tax system and administration more transparent and service oriented and will be successful in establishing it as an example in South Asia Region". (IRD: 2001)

Hamaekers, Chief Executive of International Bureau of Fiscal Documentation, Amsterdam the Netherlands has expressed satisfaction over the implementation of VAT in Nepal. "Tax even when the Nepalese shopkeepers were against the

implementation of the VAT, eventually introduction of the Valued Added Tax is a matter of great satisfaction.” (IRD: 2001)

2.8 Other Research Review

Government of Nepal has conducted various researches to find the implication stage and its effectiveness of Tax and Tax Auditing System about some of them is discussed below:

) Revenue Administration Task Force Report – 2060 B. S.

Inland Revenue Task Force Report 2060 B.S. clearly indicated that a) auditing function of Inland Revenue Offices is not satisfactory both in quantity and quality, b) there is revenue evasion in tax administration, c) the Gross Domestic Product and Tax Revenue are around 10% where as in 2059/60 B.S. VAT, Income Tax and Excise Duty were respectively 3.17%, 1.83%, and 1.11%.

) Feasibility Study for the Establishment of Semi-Autonomous Revenue Authority in Nepal

Mann, Aurther, Senior Economist, Development Alternatives, Inc. Bethesda, Maryland, and United States of America states:

“Nepal’ internal tax system (income tax, VAT, and excise duty) is solidly based on modern tax legislation and regulations, a computerized VAT administration, and many completed computerized modules for administering the income tax. The missing element is the human resource. Since the staff of Ministry of Finance including those employed in the Inland Revenue Department (IRD) and the Custom Department, is the part of Nepal’s civil service, the Civil Service Act of 1993 regulates all policies pertinent to personnel. The result is that these two departments, which are in charge of administering and collecting Nepal’s taxes are unable to efficiently manage their staff and place the right person in the right place in right time. Monetary incentives are inadequate, and staff transfers and dismissal rules, policies, and practices that are incentive stage for the development of a stronger tax administration. It is hard to imagine that these obstacles will be overcome within the confines of the present system.” (Semi-Autonomous Revenue Authority: 2004)

2.9 Judicial Review

Some of the judicial decisions are taken to study the nature of tax laws and these judicial decisions are guidelines to formulate the further tax laws and taxation system. The weaknesses of previous laws are corrected after analyzing the past decision made by authority. Some of the judicial decisions related to Taxes are given below. Most of the decisions are especially concentrated with VAT.

1) Mandan Lal Agrawal Vs Tax Department, Kathmandu; *Nepal Kanoon Patrika 2033, Volume 18, No. 12, Page No. 225, Decision No. 1009:*

-) No Appeal shall be made in absence of the jurisdiction
-) Punishment shall be made to them who are not serious to complete their assigned job.

2) Jograj Agrawal Vs Chief Tax Officer, Nepaljung; *Nepal Kanoon Patrika 2040, Volume 25, No. 3, Page No. 79, Decision No. 1630:*

-) It cannot be claimed by the person who failed to submit the file of return that accounts are not approved.

3) Shes Sami Miya Vs Bara District Parchayat; *Nepal Kanoon Patrika 2031, Volume 16, No. 11, Page No. 160, Decision no. 867:*

-) Tax levied in the absence of law is void.

4) Kisan Lal Golchha Vs Tax Office, Dharan, Sunsari; *Nepal Kanoon Patrika 2048, Volume 33, No. 9, Page No. 462, Decision No. 4351:*

-) The right and liability shall not be created by the agreement made between the government of Nepal and other country except if the agreement is supported by the prevailing law.
-) Income tax is not exempted if the government does not publish any notice about the exemption of taxes.

5) Hotel Makalu Vs VAT Department and Other, *Supreme Court, Division Bench, Decision Date 2061/19/22 B.S*

According to Section 20 (3) of the VAT Act, 2052, the burden of proof should be presented by tax officer. In the case of Hotel Makalu Vs VAT Department,

the officer found out an error in the submitted returns for the month of Aswin and Kartik. Based on these two months, the tax officer assumed that the respondent had committed an error in all the others months. This was done in a proportional basis and without adequate proof. Therefore, the tax assessment order was made void since the tax officer cannot come to a conclusion based on the returns of two month alone. He should have found the errors in the submitted returns of 12 months.

6) Krishna Steels (P) Ltd. Vs Tax Office Simraha, Bara, Supreme Court, Division Bench, Decision Date 2061/12/19 B.S

The Materials purchased for the construction of a building is related to transaction. The credit can be claimed from the VAT paid during the purchase of the materials. According to the process of section 13 (2) of the VAT Act, 2052 and Rule 22 (1) of the VAT Rule, the tax officer cannot declare a case of under invoicing without studying transactions and value of other vendors registered in regard to the transaction of the same nature. Therefore, the tax assessment order is void.

7) Plywood Store Vs The Tax Officer of Revenue Investigation Department, Inland Revenue Department, Decision Date 2061/03/08 B.S

The section 20 (4) of VAT Act, 2052 has clearly stated that the tax officer as to make tax assessment order within four years from the earliest date that a tax return was filled or was due. On the contrary, the parliament assessment order of Aswin and Kartik 2056 was done on dated 2060-08-26. Since this was done well after four years therefore, the tax assessment order is void.

8) Shiva Trade International Traders Vs VAT Office, Kathmandu, The Judgment Compilation of Revenue Tribunal (2004), Kathmandu, Volume 1, Page No. 52

The tax assessment order of rest of the months cannot be done based on a single invoice or the account of a single month. The tax assessment order should be made keeping in view of facts. The VAT is applied in proper transaction and sales. The tax cannot be levied arbitrarily.

9) Bishwanth Jajodepa Vs VAT office, Ktahmandu, *The Judgment Compilation of Revenue Tribunal (2004), Kathmandu, Volume 1, Page No. 172*

The accused should be given an opportunity to define himself/ herself according to Law. The tax office did not give an opportunity for clarification. After the assessment order providing an opportunity to clarification is not justifiable. It is just an opportunity for making an appeal. That is why due to lack of clarification the assessment order is void.

10) Raj Kumar Agrawal Vs Inland Revenue Office, Jhapa, *The Judgment Compilation of Revenue Tribunal (2004), Kathmandu, Volume 1, Page No. 165*

The official cannot prepare details of a firm based on assumption. Therefore, a firm cannot be accused of have high priced transactions based on the details prepared by the officials on assumption.

11) Shiva Kumar Agrawal Vs Inland Revenue Office, Nepaljung, *The Judgment Compilation of Revenue Tribunal (2004), Kathmandu, Volume 1, Page No. 161*

In the case of Shiva Kumar Agrawal Vs Inland Revenue Office, Nepaljung, the respondent did not post the stock book when he did not receive the goods. However, after receiving the goods he posted it in the purchase book as well as the stock book. In this condition, the stock book should be recognized.

12) Sarbada (P) Ltd Vs VAT Department, *The Judgment Compilation of Revenue Tribunal (2004), Kathmandu, Volume 1, Page No. 155*

During the transaction, it is natural that the goods may not be useful due to leakage and breakage. Therefore, he cannot assess tax and penalties on the tax payer. The tax officer cannot charge interest and penalties exceeding the date of the decision.

After observing these cases it could be said that there were weakness in the implementation stages of tax. Many disputes were come in surface due to the unauthorized intervention of government in imposing tax liability.

2.10 Analysis of VAT Regarding to Nepalese Law and Practice

Since Marg 1, 2054 B.S. VAT implemented all over the Nepal. VAT replaced the existing four kinds of taxes. These are Hotel Tax, Contract Tax, Sales Tax and Entertainment Tax. In Nepalese context this tax was introduced having the great disagreement of Business Sectors. They were about to confuse in implementation of VAT Act, 2052. Finance Act was playing crucial role in its effectiveness because the VAT Act and VAT Rules were frequently amended by Finance Act.

The Interim Constitution of Nepal, 2063 has guaranteed of the right to property. Article 19 (1) has mentioned the provision that, '*Every citizens shall the right to property to acquire, own, sell and otherwise dispose employment according to the provisions made by the law.*' Likewise article 19 (2) has another provision that, '*Unless for social welfare the state shall not acquire or obtain nor shall they have any authority over such property.*' But this clause shall not be applicable on property acquired through illegal means.

It has been experienced that the Inland Revenue Office has assessed the tax assessment order of those who are not necessary to be registered for VAT purpose, and transaction below the threshold. If this type of act has been enacted, there are remained two options either pay tax or challenge the decision in front of the Court.

The philosophy, '*no tax without law*', has been adopted in the Interim Constitution, 2063. Article 89 (1) has provisioned that '*No tax shall be levied or loan to be raised except in accordance with law*'. There are many cases of tax officer issuing the assessment order and demand of tax and penalties without law. Like United Telecom Limited (UTL) Vs Large Tax Payers Office case which is sub-judicial in Revenue Tribunal, and Group ***Four Flack Vs Inland Revenue*** Office, Kathmandu Area Number 3. It can be said that the provision of constitution isn't properly implemented in the context of tax by tax administration. It could create problem and dissatisfaction among the tax payers.

CHAPTER – III

RESEARCH METHODOLOGY

Research is an original contribution to knowledge in existence, so as to achieve some advancement. The term 'research' means, to the systematic methodology which consists of stating the problem clearly, sets hypotheses, collecting the required data, analyzing the collected data arriving at conclusion.

3.1 Research Design

This study is dedicated to find out the effectiveness of tax auditing system of tax department and its stakeholders. It will qualitative in nature. This study is based on survey as well as secondary data. The secondary data will descriptive and explorative in nature. The analysis is completed using all the access data, regarding the views of stakeholder and associated personnel so as to bring in rating scale to evaluate or measure the effectiveness of tax auditing. Secondary data will be equally useful to get the maximum satisfaction about the study.

3.2 Nature and Sources of Data

The purpose of study is to find out the degree of effectiveness of tax auditing. Although this study is qualitative in nature, both secondary and primary data are used to capture the real picture of study. The study is depended upon secondary data. So far as primary data is also used to draw the conclusions, which is collected from different fields.

3.3 Secondary data

Secondary Data were collected from the available source like Annual Report of Inland Revenue Department.

3.4 Primary data

Primary Data were collection from the 80 (Eighty) sample from the infinite population.

3.5 Population and Size of Sample

The population of study is infinite. It is very costly and time consuming and say impossible to conduct the census while doing study. Thus, study is based on sample. The sample size is 80 taken from infinite number of population and divided into five different categories and equal chance of selected heterogeneously with respect to the nature, volume of transactions, ownership of business and geographical location.

The classified different categories of sample will be as follow: -

1. Business Houses	16
2. Low level tax officials	16
3. Middle level tax officials	16
4. High level tax officials	16
5. Auditors/Lawyers/Consultants	16

There will be sufficient set of questionnaires as per requirement of circumstances to collect more reliable information.

3.6 Data collection, Analysis and Interpretation

The data are collected from Primary and Secondary sources. They are tabulated, classified and analyzed using statistical tools as per requirement. So far as popular statistical tools such as Mean, Mode, Median, Standard Deviation, Correlation and Hypothesis Testing are used to make study more standard and systematic.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the data presentation and analysis of secondary as well as primary data collected from various source. It is observed that whether the result of data do support our research question or not. This chapter is classified into two parts. They are: a) Data presentation and analysis of primary data, and b) Data presentation and analysis of secondary data.

4.1 Analysis of Secondary Data

Secondary data are collected from the report of Inland Revenue Department-2066/67. The below table 4.28, and 4.29 are presented below to show the status of taxes and the revenue collected from taxes. Our concerned tax was VAT. The table 4.1 showed that revenue collected from VAT has been major portion in total public revenue.

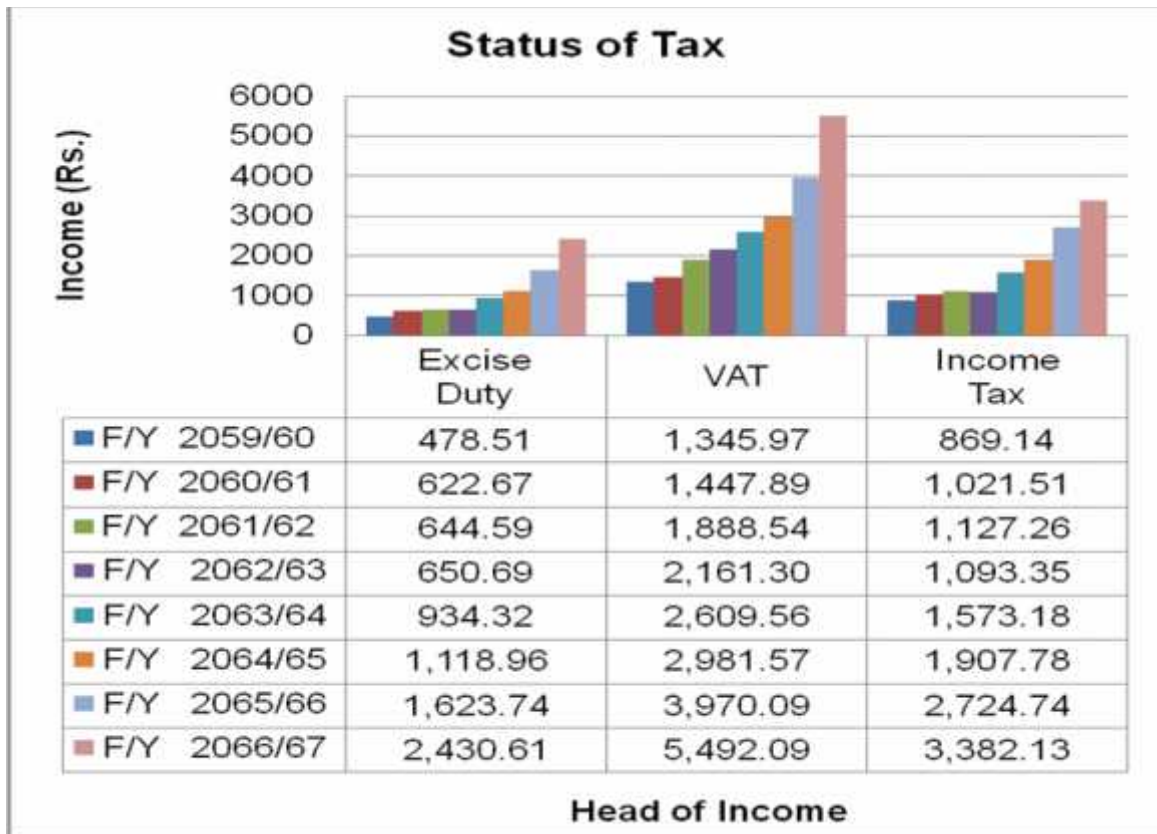
Table 4.1(a): Status of Tax

In Crore(Rs.)

S. N.	Title of Tax	2059/60	2060/61	2061/62	2062/63	2063/64	2064/65	2065/66	2066/67	Total
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
1	Excise Duty	478.51	622.67	644.59	650.69	934.32	1,118.96	1,623.74	2,430.61	8,504.09
2	VAT	1,345.97	1,447.89	1,888.54	2,161.30	2,609.56	2,981.57	3,970.09	5,492.09	21,897.01
3	Income Tax	869.14	1,021.51	1,127.26	1,093.35	1,573.18	1,907.78	2,724.74	3,382.13	13,699.10
Total		2,693.62	3,092.07	3,660.39	3,905.35	5,117.06	6,008.31	8,318.57	11,304.83	-----

Source: Report of Inland Revenue Department 2067.

Diagram 4.1(a): Status of Tax



The above table 4.1(a) and diagram 4.1(a) show that VAT collected is major portion in public finance. The contribution of VAT in Total Revenue is 50%, 47%, 52%, 55%, 51%, 50%, 48% and 49% in the fiscal year 2059/60, 2060/61, 2061/62, 2062/63, 2063/64, 2064/65, 2065/66 and 2066/67 respectively.

Table 4.1(b): Collection of Internal Revenue and Contribution on Gross Domestic Product (GDP)

Fiscal Year	Revenue Collection of Targeted Revenue	Contribution on GDP	Contribution of IRD on GDP	Contribution of IRD on Total Tax
2059/60	98.40%	11.40%	5.73%	63.18%
2060/61	100.20%	11.60%	6.55%	64.18%
2061/62	99.70%	11.90%	7.25%	67.98%
2062/63	88.30%	12.31%	9.85%	54.86%
2063/64	101.50%	13.08%	10.61%	57.99%
2064/65	103.83%	13.11%	10.37%	58.52%
2065/66	101.24%	14.46%	11.20%	59.26%
2066/67	100.41%	15.22%	13.22%	53.26%

Source: Report of Inland Revenue Department 2067.

Diagram 4.1(b): Collection of Internal Revenue and Contribution on Gross Domestic Product (GDP)

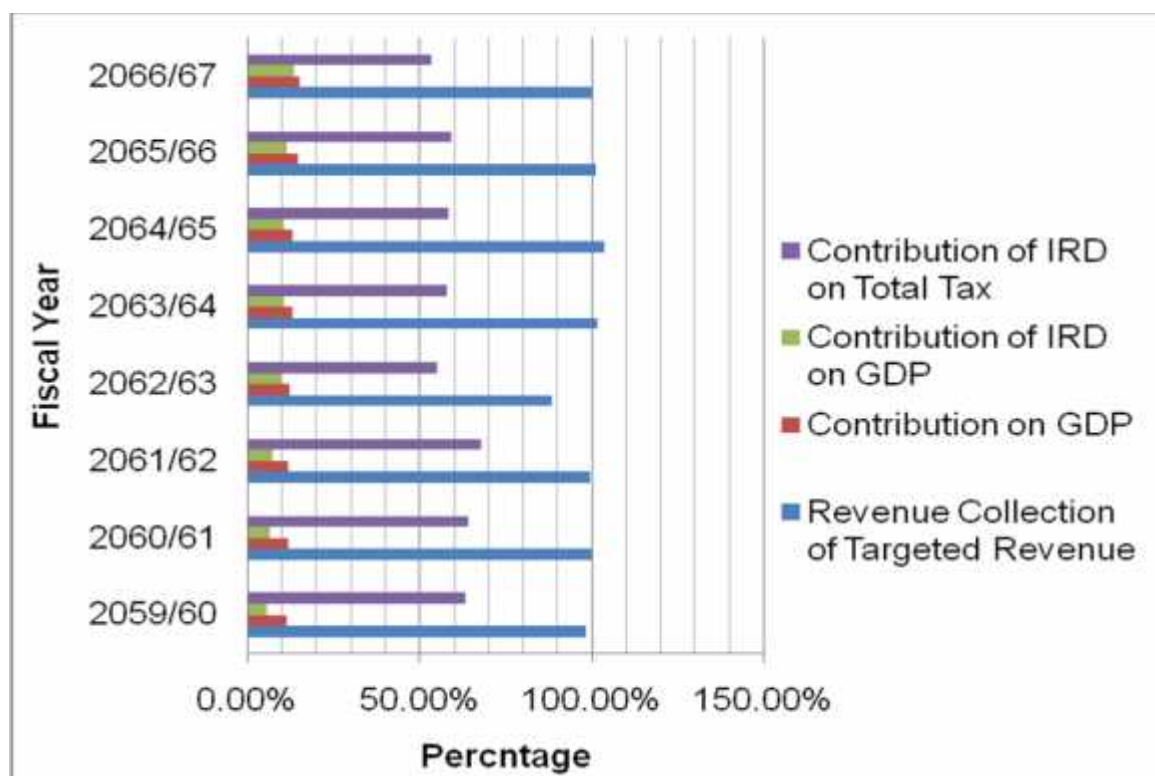


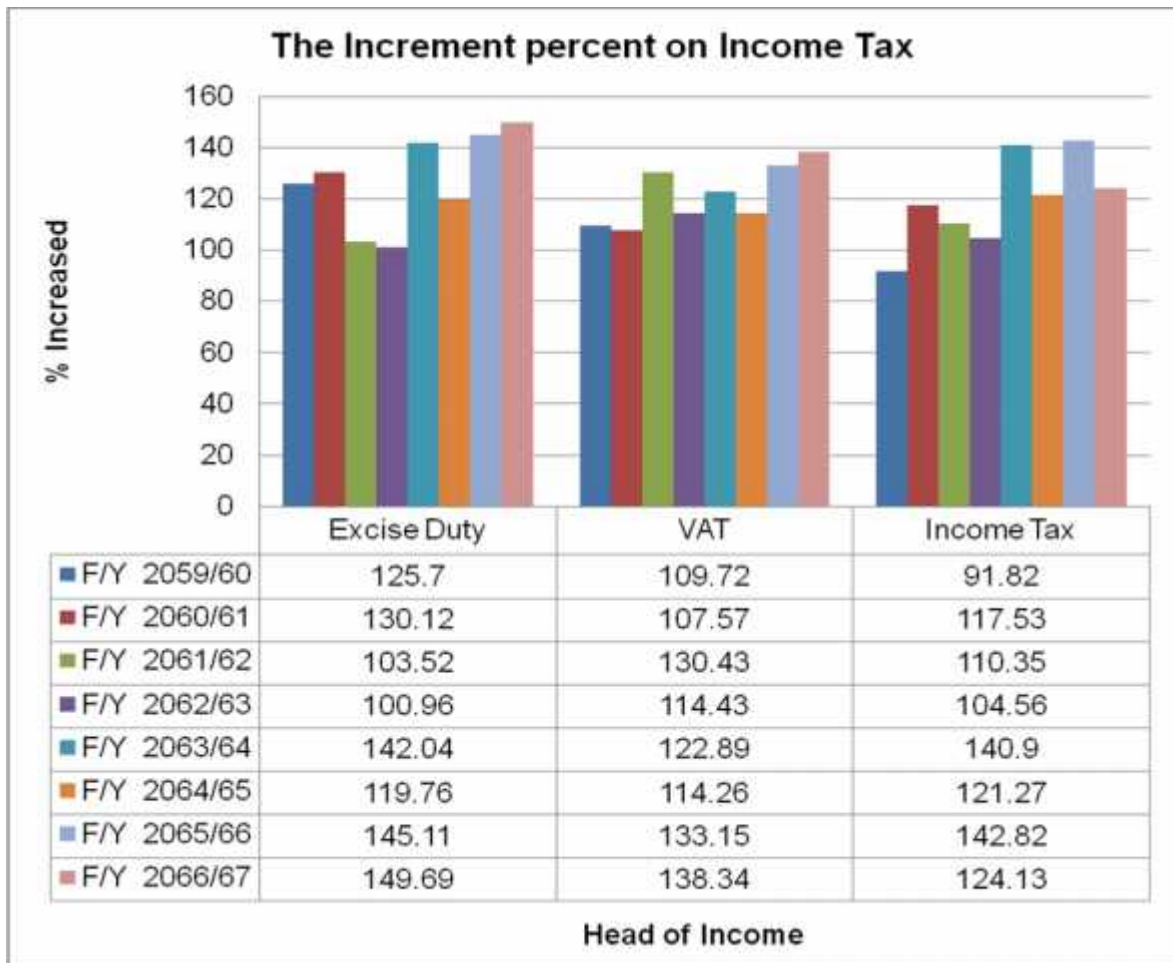
Table 4.1(b) and Diagram 4.1(b) showed that contribution of internal Revenue was 11.40% in fiscal year 2059/60 and 15.22% in fiscal year 2066/67. It shows that there were gradually increased in the fiscal years 2060/61, 2061/62, 2062/63, 2063/64, 2064/65, 2065/66. It was observed that contribution of Inland Revenue Department on GDP was increased 5.73% in fiscal year 2059/60 to 13.22% in fiscal year 2066/67.

Table 4.2: The Increment Percent on Income Tax

S. N	Title of Tax	2059/60	2060/61	2061/62	2062/63	2063/64	2064/65	2065/66	2066/67
		Increase d	Increase d	Increase d	Increase d	Increase d	Increase d	Increase d	Increase d
		%	%	%	%	%	%	%	%
1	Excise Duty	125.7	130.12	103.52	100.96	142.04	119.76	145.11	149.69
2	VAT	109.72	107.57	130.43	114.43	122.89	114.26	133.15	138.34
3	Income Tax	91.82	117.53	110.35	104.56	140.9	121.27	142.82	124.13

Source: Report of Inland Revenue Department - 2066/67

Diagram 4.2: The Increment Percent on Income Tax



The above table 4.2 and diagram 4.2 showed that the increment of VAT was increasing from 109.72% in the fiscal year 2059/60 to 130.43% in the fiscal year 2061/62. The increment rate has gone down to 114.43% in fiscal year 2062/63. It has been 122.89% increment in fiscal year 2063/64. Again the increment rate has gone down to 114.26% in fiscal year 2064/65. And again it has been 138.54% increment in fiscal year 2066/67. The trends shows that incremental rate of VAT has been fluctuate in the different year.

4.2 Analysis of Primary Data

The following tables and diagrams helped to indicate the present situation of tax administration and the outcome of tax laws. We do focus on Tax Audit, Tax Administration and Tax related laws, rules and procedures for the purpose of our

study. The different sets of questionnaires were prepared and information is collected from the target sample. Let them observe scientifically as far as possible.

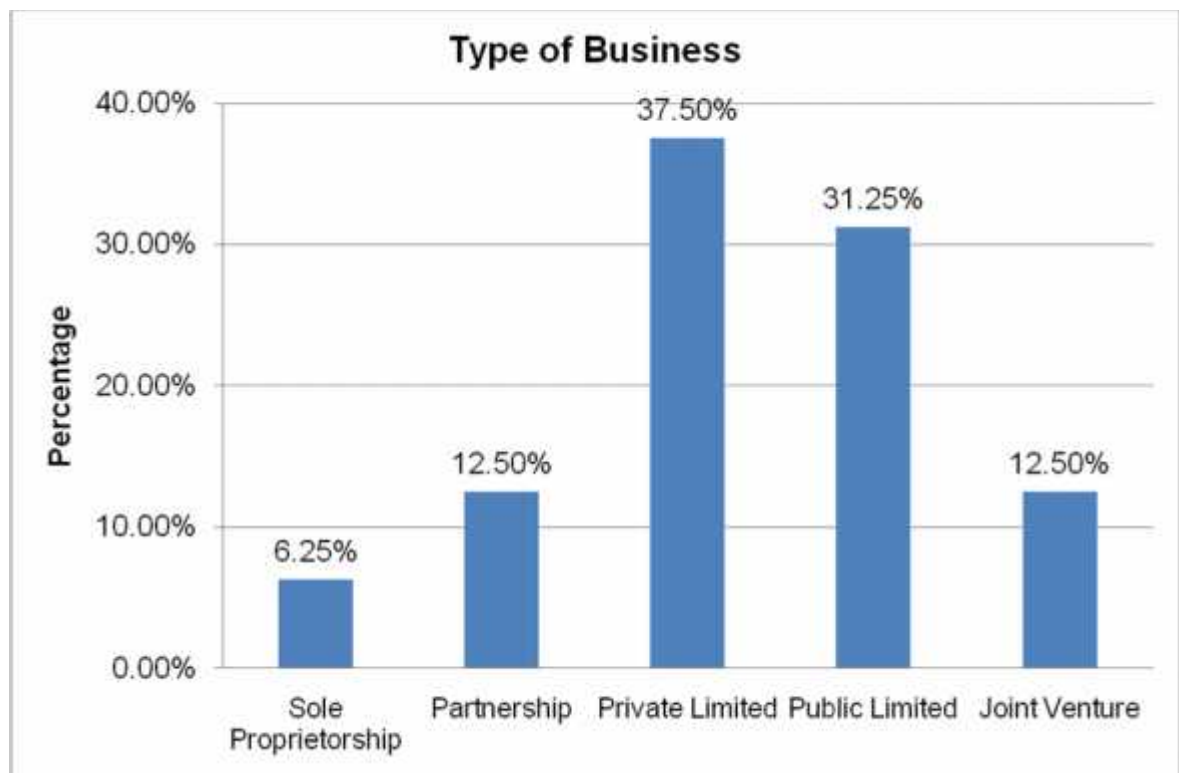
Question Set A: Only For Businessmen

There were sixteen questionnaires for the Businessmen in Set A. This set of questionnaires was distributed among the 16 samples. There was 100% participation of the samples.

4.3: Types of Business

Business	Frequency	Percentage	Cumulative Percentage
Sole Proprietorship	1	6.25%	6.25%
Partnership	2	12.50%	18.75%
Private Limited	6	37.50%	56.25%
Public Limited	5	31.25%	87.50%
Joint Venture	2	12.50%	100.00%
Total	16	100.00%	

Diagram 4.3: Types of Business

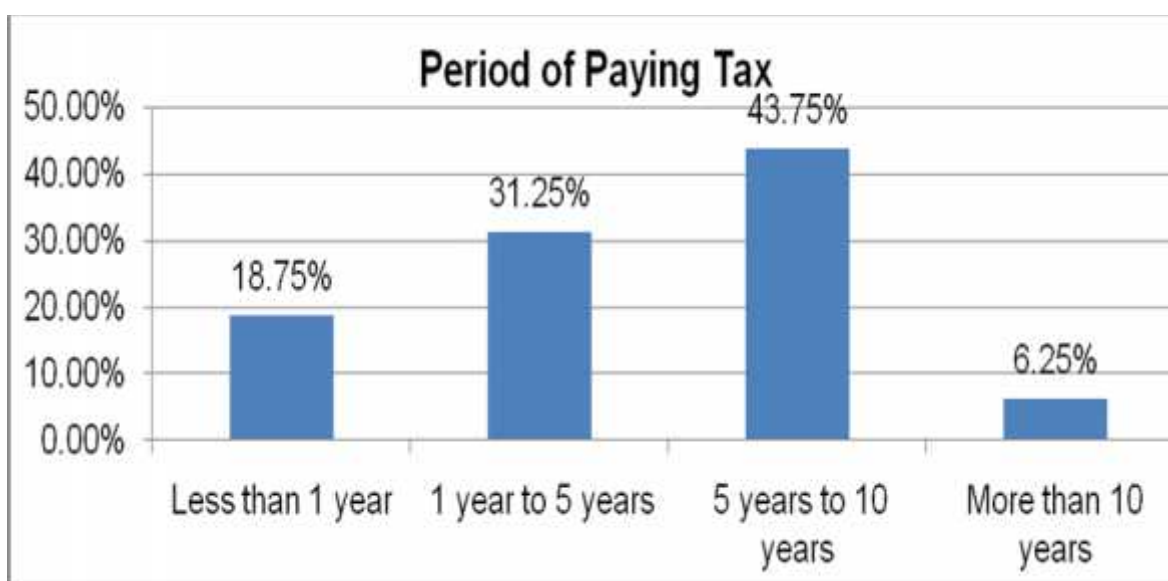


The above table 4.3 and diagram 4.3 showed that 37.5% participants are of Private Limited companies. This value is highest among the total number of participants.

Table 4.4: Period of Paying Tax

Period	Frequency	Percentage	Cumulative Percent
Less than 1 year	3	18.75%	18.75%
1 year to 5 years	5	31.25%	50.00%
5 years to 10 years	7	43.75%	93.75%
More than 10 years	1	6.25%	100.00%
Total	16	100.00%	

Diagram 4.4: Period of Paying Tax

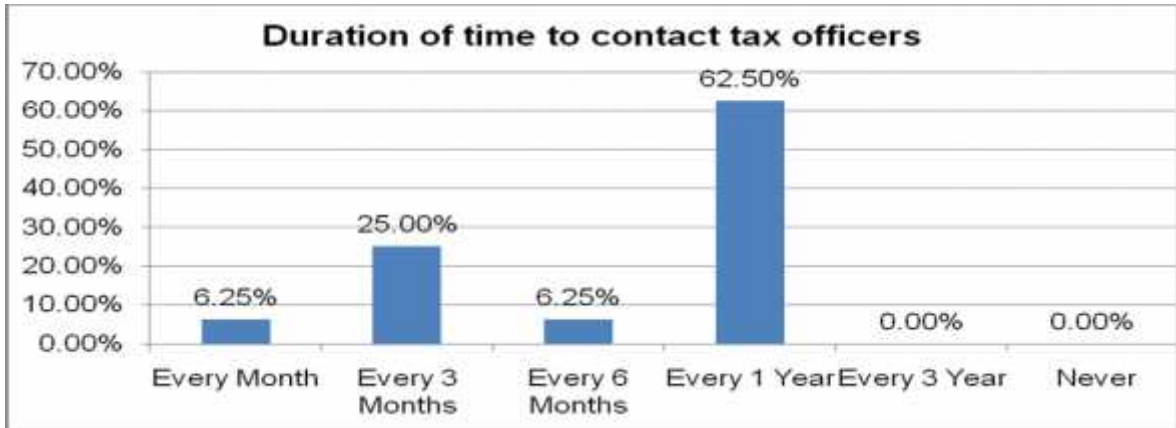


The above table 4.4 and diagram 4.4 show that 43.75% respondents lie between 5 years to 10 years range in connection of paying taxes.

Diagram 4.5: Duration of Time to Contact Tax Officers

Duration	Frequency	Percentage	Cumulative Percent
Every Month	1	6.25%	6.25%
Every 3 Months	4	25.00%	31.25%
Every 6 Months	1	6.25%	37.50%
Every 1 Year	10	62.50%	100.00%
Every 3 Year	0	0.00%	100.00%
Never	0	0.00%	100.00%
Total	16	100.00%	

Diagram 4.5: Duration of Time to Contact Tax Officers

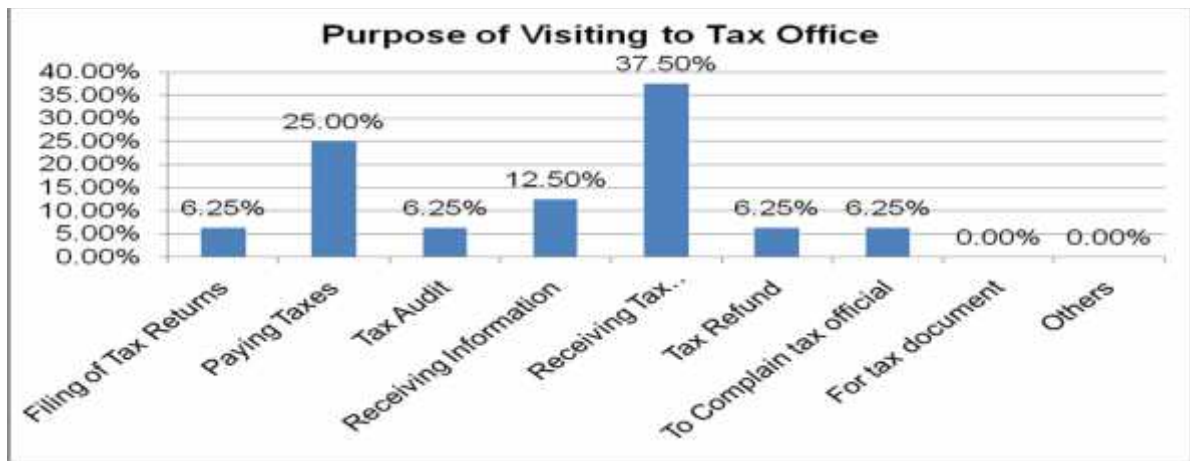


The above table 4.5 and diagram 4.5 showed that taxpayers kept contact to tax officers once in a year. Out of total respondent, 62.5% respondents were saying that they regularly come in contact with tax officers once in year.

Table 4.6: Purpose of Visiting to Tax Office

Purposes	Frequency	Percentage	Cumulative Percent
Filing of Tax Returns	1	6.25%	6.25%
Paying Taxes	4	25.00%	31.25%
Tax Audit	1	6.25%	37.50%
Receiving Information	2	12.50%	50.00%
Receiving Tax Clearance Certificate	6	37.50%	87.50%
Tax Refund	1	6.25%	93.75%
To Complain tax official	1	6.25%	100.00%
For tax document	0	0.00%	100.00%
Others	0	0.00%	100.00%
Total	16	100%	

Duration 4.6: Purpose of Visiting to Tax Office

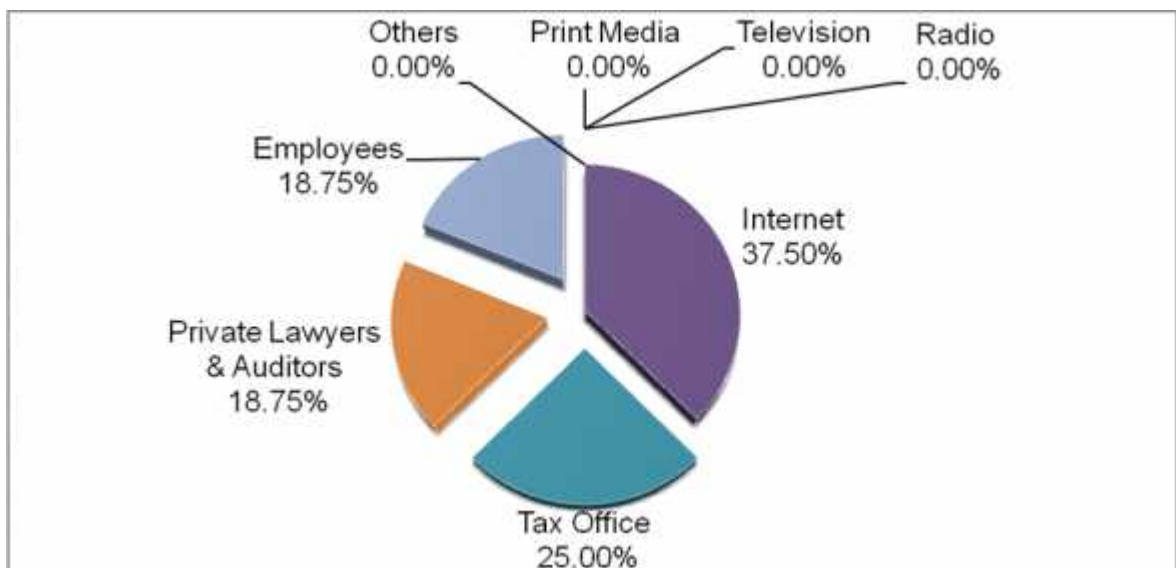


The above table 4.6 & diagram 4.6 showed that 37.5% & 25% respondents visited to tax office for the purpose of receiving tax clearance certificate & paying taxes respectively.

Table 4.7: Sources of Information about Tax

Sources	Frequency	Percentage	Cumulative Percent
Print Media	0	0.00%	0.00%
Television	0	0.00%	0.00%
Radio	0	0.00%	0.00%
Internet	6	37.50%	37.50%
Tax Office	4	25.00%	62.50%
Private Lawyers & Auditors	3	18.75%	81.25%
Employees	3	18.75%	100.00%
Others	0	0.00%	100.00%
Total	16	100%	

Diagram 4.7: Sources of Information about Tax

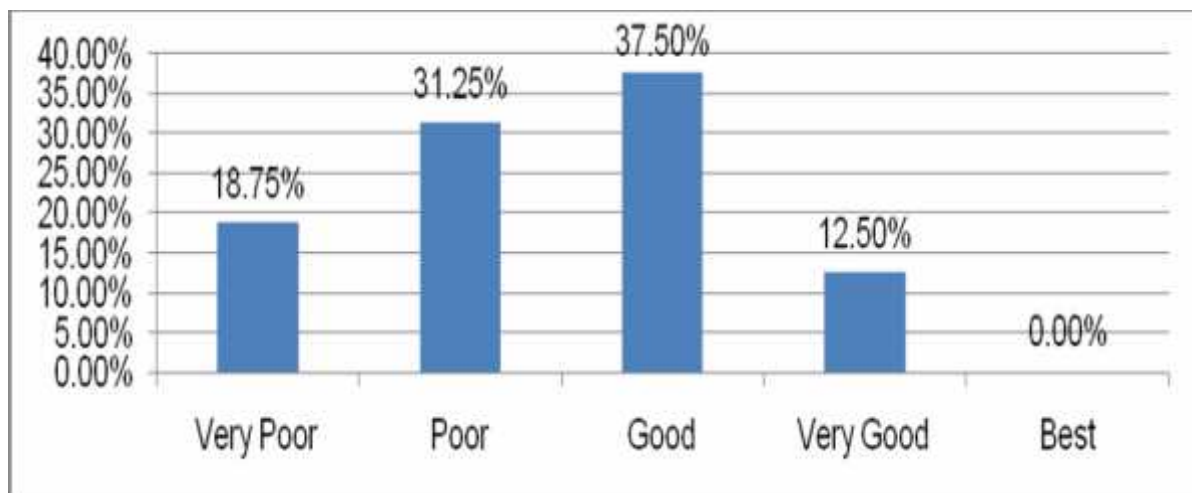


The above table 4.7 & chart 4.7 show 37.5% & 25% respondents got information from internet and tax office respectively. The major source of information is being internet.

Table 4.8: Quality of services of Inland Revenue Department/ Offices

Status	Frequency	Percentage	Cumulative Percent
Very Poor	3	18.75%	18.75%
Poor	5	31.25%	50.00%
Good	6	37.50%	87.50%
Very Good	2	12.50%	100.00%
Best	0	0.00%	100.00%
Total	16	100%	

Diagram 4.8: Quality of services of Inland Revenue Department/ Offices

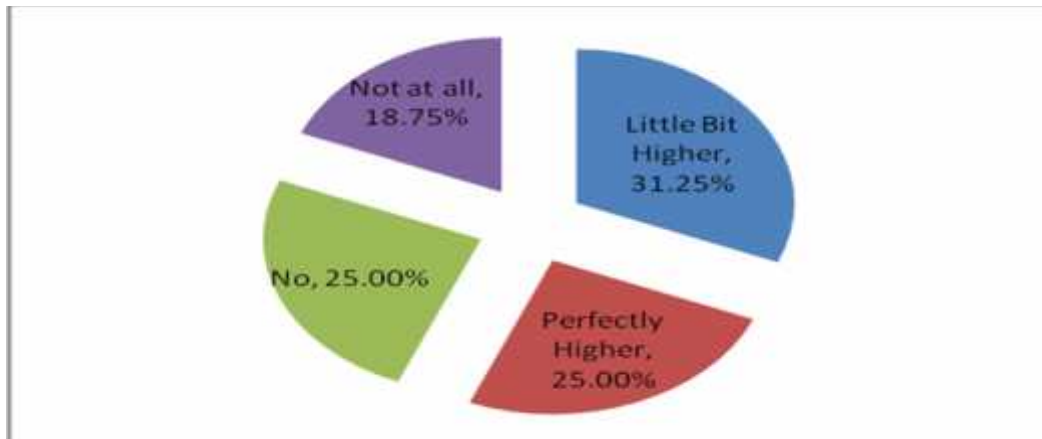


The above table 4.8 & diagram 4.8 show those 37.5% respondents are satisfied with the quality of services provided by Inland Revenue Department. But 31.25 % respondents are not satisfied.

Table 4.9: Qualities of services in comparison of previous years

Status	Frequency	Percentage	Cumulative Percent
Little Bit Higher	5	31.25%	31.25%
Perfectly Higher	4	25.00%	56.25%
No	4	25.00%	81.25%
Not at all	3	18.75%	100.00%
Total	16	100.00%	

Diagram 4.9: Qualities of services in comparison of previous years

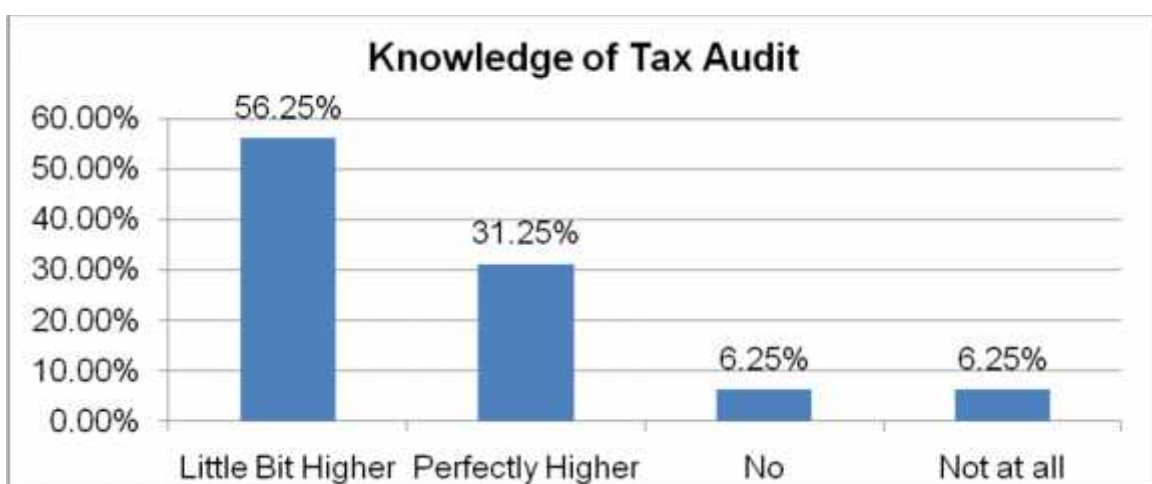


The above table 4.9 & Diagram 4.9 show that 31.25% of respondent are experienced the little bit higher improved qualities of services in comparison of previous year.

Table 4.10: Knowledge of Tax Audit

Status	Frequency	Percentage	Cumulative Percent
Little Bit Higher	9	56.25%	56.25%
Perfectly Higher	5	31.25%	87.50%
No	1	6.25%	93.75%
Not at all	1	6.25%	100.00%
Total	16	100.00%	

Diagram 4.10: Knowledge of Tax Audit

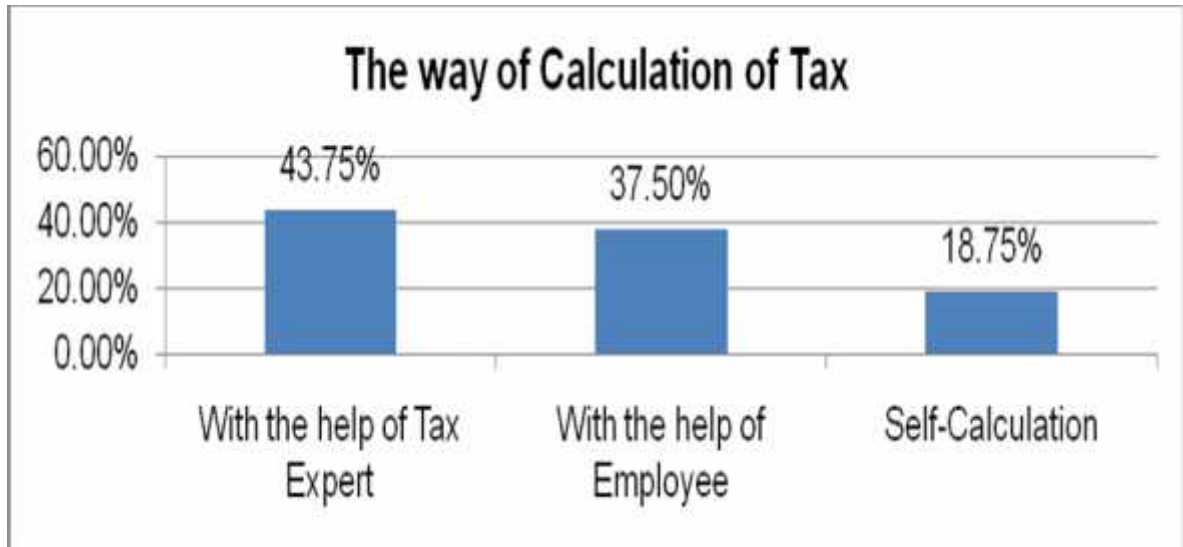


The above table 4.10 & diagram 4.10 show that the large part of the respondents is aware of Tax Audit. 56.25% and 31.25% of respondents keep knowledge of tax audit little bit higher and perfectly higher respectively.

Table 4.11: The way of Calculation of tax

Ways	Frequency	Percentage	Cumulative Percent
With the help of Tax Expert	7	43.75%	43.75%
With the help of Employee	6	37.50%	81.25%
Self-Calculation	3	18.75%	100.00%
Total	16	100%	

Diagram 4.11: The way of Calculation of tax

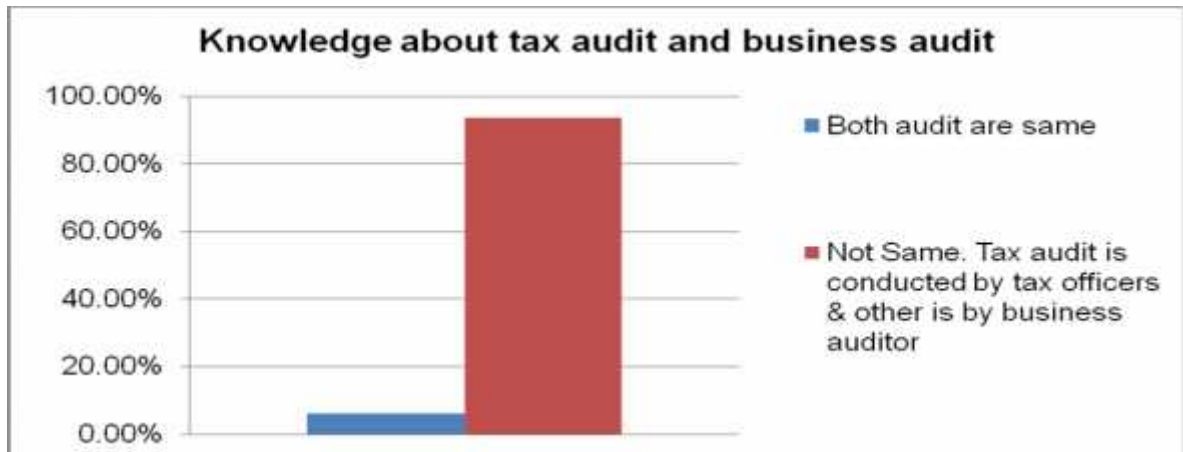


The above table 4.11 & diagram 4.11 showed that very little proportion of respondents calculate payable tax under their self effort. 43.75% & 37.50% of total respondents calculate tax with the help of tax expert and with the help of employee respectively.

Table 4.12: Knowledge about tax audit and business audit

Ways	Frequency	Percentage	Cumulative Percent
Both audit are same	1	6.25%	6.25%
Not Same. Tax audit is conducted by tax officers & other is by business auditor	15	93.75%	100.00%
Total	16	100.00%	

Diagram 4.12: Knowledge about tax audit and business audit

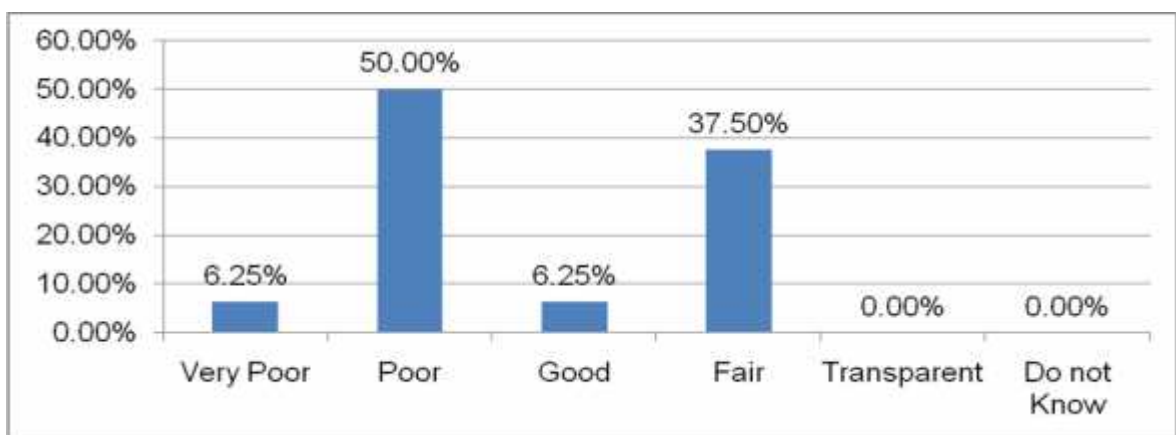


The above table 4.12 and diagram 4.12 show that 93.75% of respondents are aware about the difference between tax audit and business audit. This means they have sufficient knowledge about audit.

Table 4.13: Opinion about the qualities of Tax Audit

Status	Frequency	Percentage	Cumulative Percent
Very Poor	1	6.25%	6.25%
Poor	8	50.00%	56.25%
Good	1	6.25%	62.50%
Fair	6	37.50%	100.00%
Transparent	0	0.00%	100.00%
Do not Know	0	0.00%	100.00%
Total	16	100.00%	

Diagram 4.13: Opinion about the qualities of Tax Audit

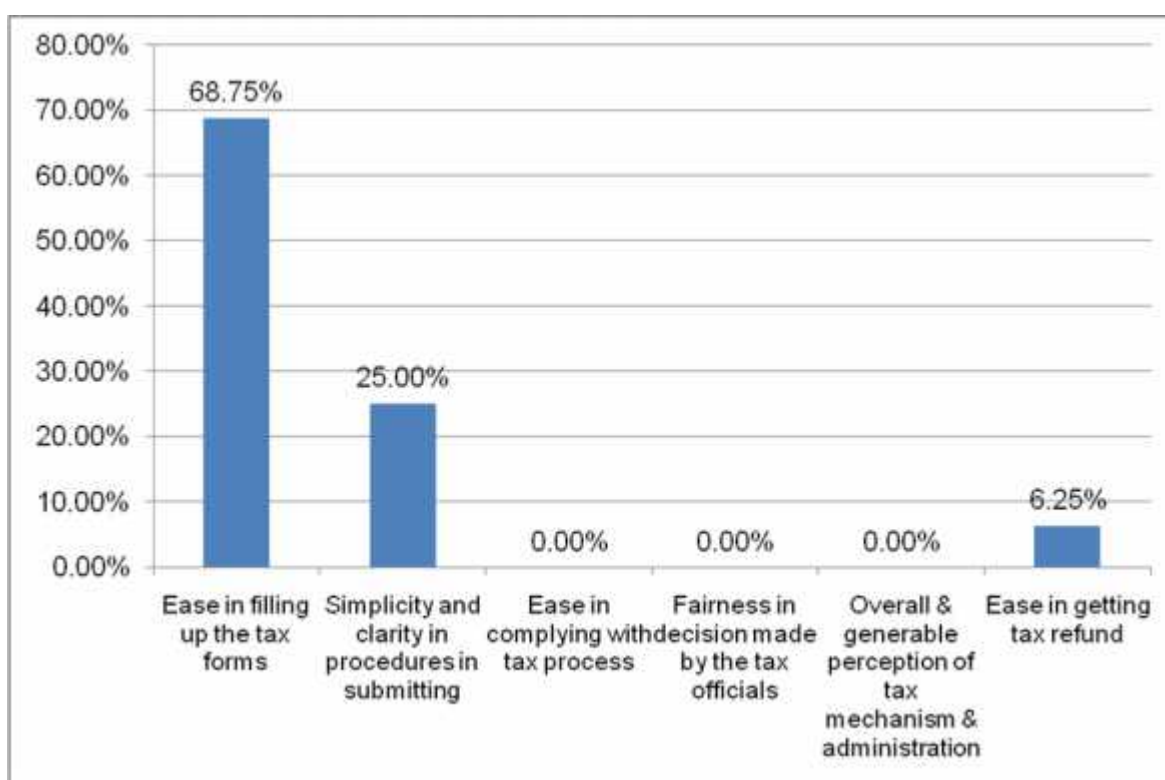


The above table 4.13 and diagram 4.13 showed that 50% of the total was arguing about the poor quality of Tax Audit.

Table 4.14: Rating of the tax procedure and administrative mechanism

Status	Frequency	Percentage	Cumulative Percent
Ease in filling up the tax forms	11	68.75%	68.75%
Simplicity and clarity in procedures in submitting	4	25.00%	93.75%
Ease in complying with tax process	0	0.00%	93.75%
Fairness in decision made by the tax officials	0	0.00%	93.75%
Overall & generable perception of tax mechanism & administration	0	0.00%	93.75%
Ease in getting tax refund	1	6.25%	100.00%
Total	16	100.00%	

Diagram 4.14: Rating of the tax procedure and administrative mechanism

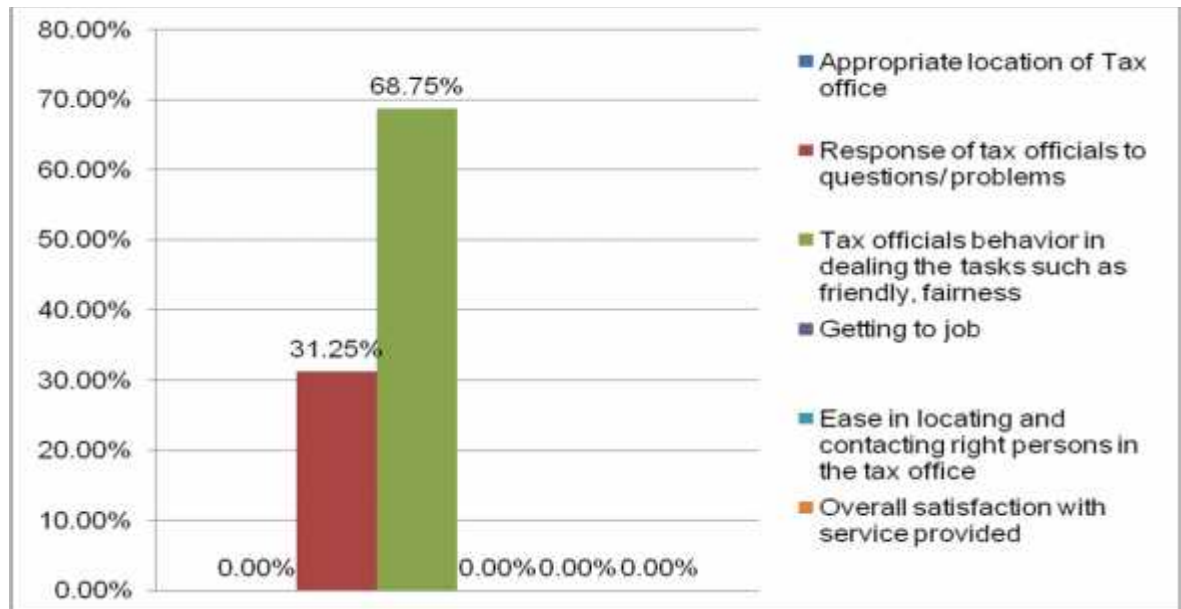


The above table 4.14 and diagram 4.14 show that 68.75% of the respondents are in favor of Ease in filling up the tax forms regarding the tax procedures and administration mechanism.

Table 4.15: Rating of the Quality of the tax office

Status	Frequency	Percentage	Cumulative Percent
Appropriate location of Tax office	0	0.00%	0.00%
Response of tax officials to questions/ problems	5	31.25%	31.25%
Tax officials behavior in dealing the tasks such as friendly, fairness	11	68.75%	100.00%
Getting to job	0	0.00%	100.00%
Ease in locating and contacting right persons in the tax office	0	0.00%	100.00%
Overall satisfaction with service provided	0	0.00%	100.00%
Total	16	100%	

Diagram 4.15: Rating of the Quality of the tax office



The above table 4.15 and diagram 4.15 show that 68.75% & 31.25% of the respondents are in favor of the positive behavior of tax officials in dealing tasks such as friendly & fairness and response of tax officials to question/problem respectively.

Table 4.16: Knowledge about the tax auditing procedure

Status	Frequency	Percentage	Cumulative Percent
Yes	16	100.00%	100.00%
No	0	0.00%	100.00%
Total	16	100%	

Table 4.16: Knowledge about the tax auditing procedure



The above table 4.16 and diagram 4.16 show that 100% of the total respondents have knowledge about the procedures of tax auditing procedures. It is a satisfactory level.

Table 4.17: Status of Honesty and Transparency of Tax Officials

Status	Frequency	Percentage	Cumulative Percent
Yes	0	0.00%	0.00%
No	16	100.00%	100.00%
Total	16	100.00%	

Diagram 4.17: Status of Honesty and Transparency of Tax Officials



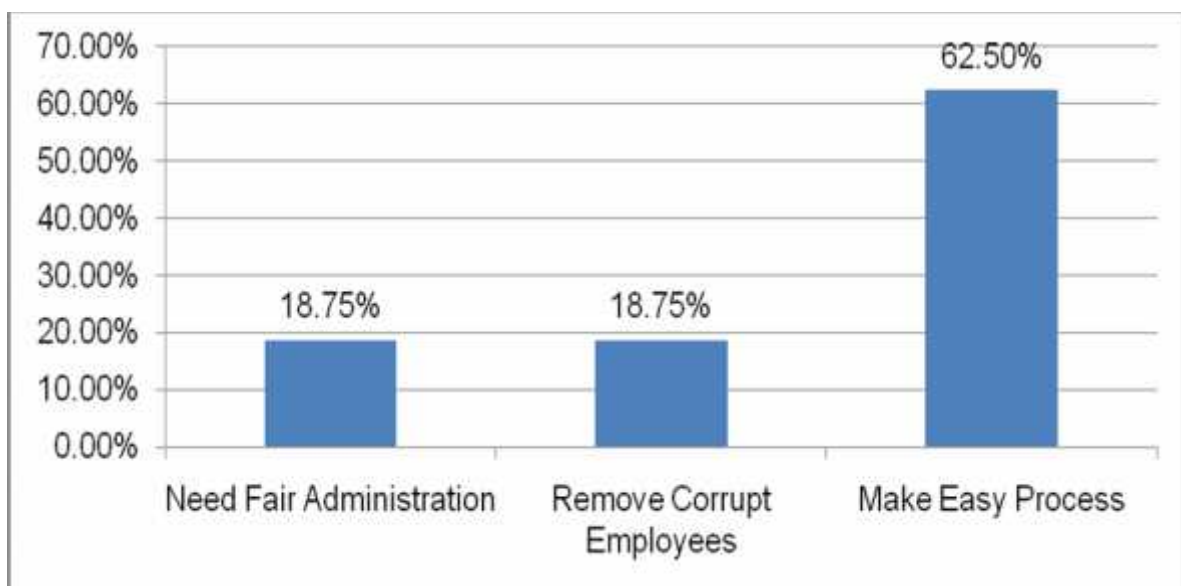
The above table 4.17 and diagram 4.17 show that 100% of the total respondents are against the Honesty and Transparency of Tax Officials. It is a major indication that what situation of the tax administration is exactly and how the taxpayers are suffering.

Table 4.18: Comments and Suggestions

Status	Frequency	Percentage	Cumulative Percent
Need Fair Administration	3	18.75%	18.75%
Remove Corrupt Employees	3	18.75%	37.50%
Make Easy Process	10	62.50%	100.00%
Total	16	100%	

Note: Answers of this question are categorized in to the likely terms keeping values and norms of answers as in its original form.

Diagram 4.18: Comments and Suggestions



The above table 4.18 and diagram 4.18 show that the suggestion came from 18.75% of respondents are in favor to have a fair administration and another 18.75% of the respondents are in favor to remove the corrupt employees and 62.50% of the respondents are willing to have easy process about tax auditing.

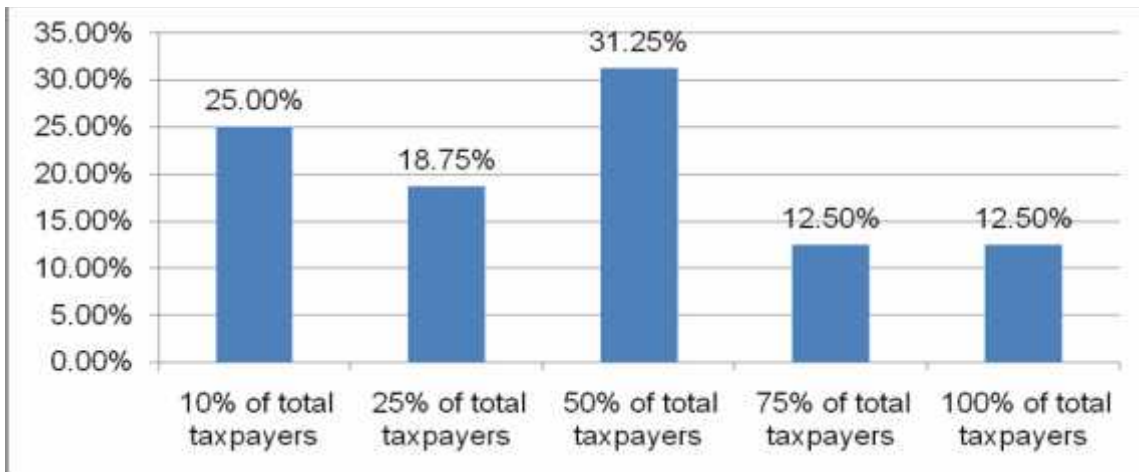
Question Set B: Only For Low Level Officials

There were six questionnaires for the low level tax officials in Set B. This set of questionnaire was distributed among the 16 samples. There was 100% participation of the samples.

Table 4.19: Coverage of Taxpayers under Tax Audit

Status	Frequency	Percentage	Cumulative Percent
10% of total taxpayers	4	25.00%	25.00%
25% of total taxpayers	3	18.75%	43.75%
50% of total taxpayers	5	31.25%	75.00%
75% of total taxpayers	2	12.50%	87.50%
100% of total taxpayers	2	12.50%	100.00%
Total	16	100%	

Diagram 4.19: Coverage of Taxpayers under Tax Audit

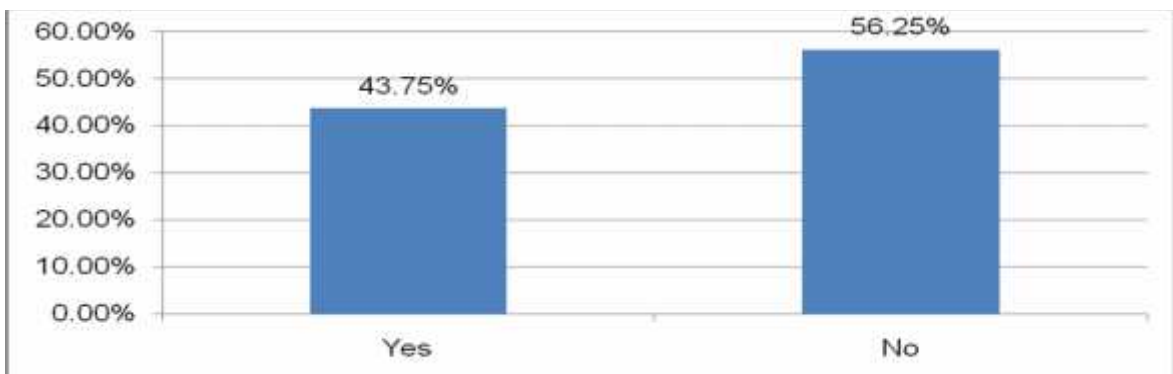


The above table 4.19 and diagram 4.19 show that 31.25% of the middle level officials are claiming that 50% of the total taxpayers are only under the net of tax.

Table 4.20: Co-operation of Taxpayers while Conducting Tax Audit

Status	Frequency	Percentage	Cumulative Percent
Yes	7	43.75%	43.75%
No	9	56.25%	100.00%
Total	16	100%	

Diagram 4.20: Co-operation of Taxpayers while Conducting Tax Audit

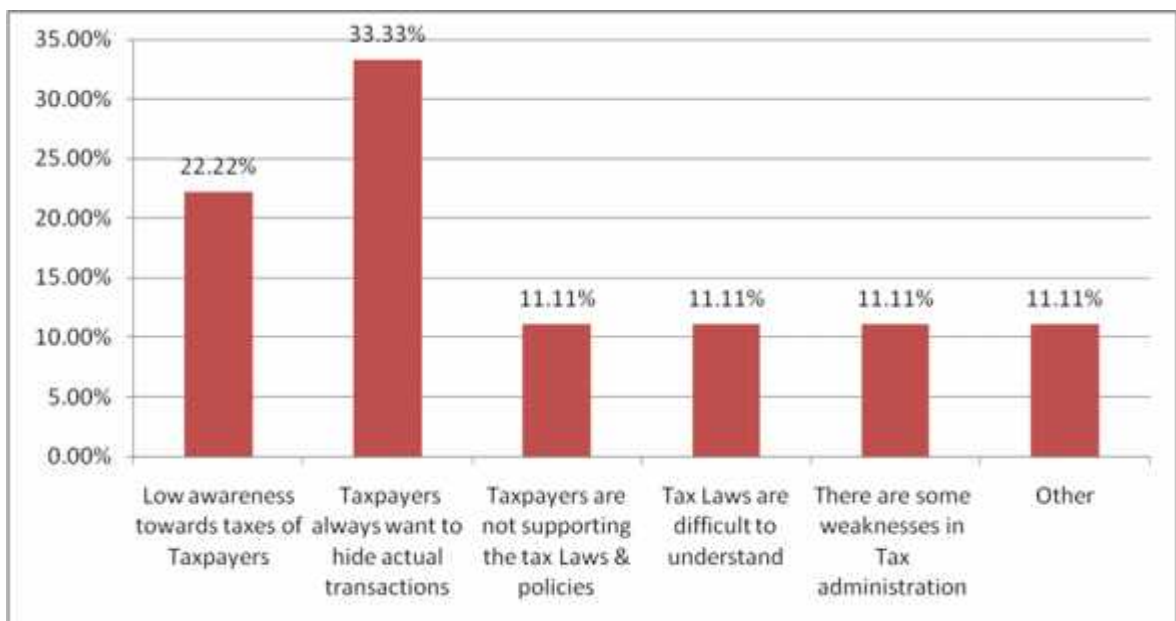


The above table 4.20 and diagram 4.20 show that 56.25% of the total respondents are claiming that the taxpayers are not cooperative while conducting tax audit. This means the taxpayers influenced the process of tax auditing.

Table 4.21: Cause for Non-Cooperation of Taxpayers in Tax Audit

Status	Frequency	Percentage	Cumulative Percent
Low awareness towards taxes of Taxpayers	2	22.22%	22.22%
Taxpayers always want to hide actual transactions	3	33.33%	55.56%
Taxpayers are not supporting the tax Laws & policies	1	11.11%	66.67%
Tax Laws are difficult to understand	1	11.11%	77.78%
There are some weaknesses in Tax administration	1	11.11%	88.89%
Other	1	11.11%	100.00%
Total	9	100%	

Diagram 4.21: Cause for Non-Cooperation of Taxpayers in Tax Audit

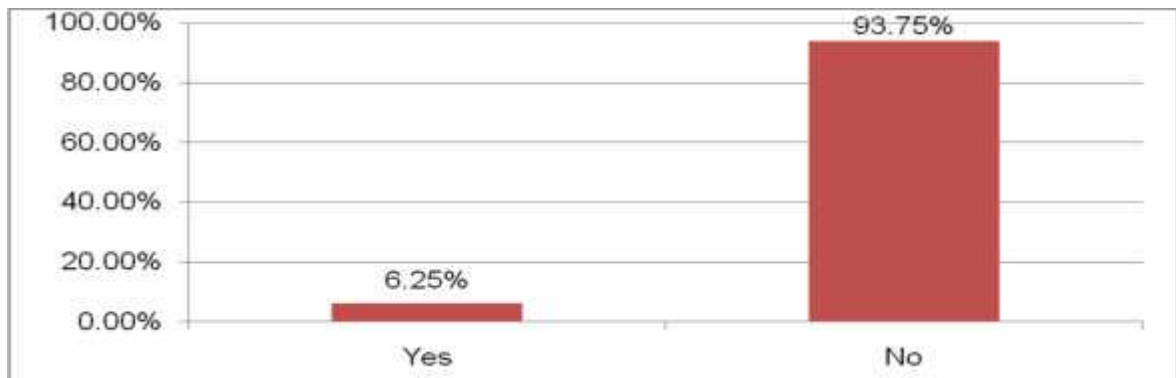


The above table 4.21 and diagram 4.21 show that 33.33% of the respondents say that taxpayers are always want to hide actual transactions out of the respondents who said that the taxpayers are not cooperative while conducting tax auditing. (Cause of No concerning to Table 4.20: Co-operation of Taxpayers while Conducting Tax Audit)

Table 4.22: Transparency in the action taken by officials

Status	Frequency	Percentage	Cumulative Percent
Yes	1	6.25%	6.25%
No	15	93.75%	100.00%
Total	16	100%	

Diagram 4.22: Transparency in the action taken by officials

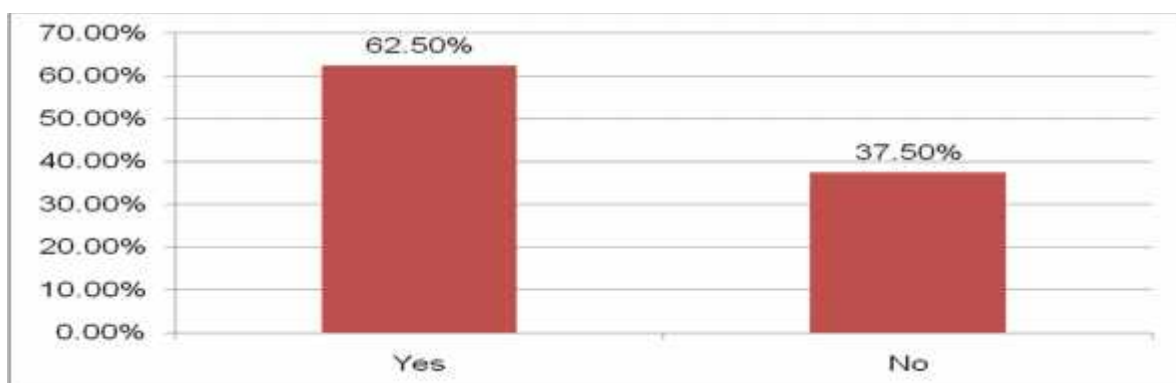


The above table 4.22 and diagram 4.22 show that 93.75% of the total respondents are against the transparency in the action taken by tax officials. It means tax officials themselves are not confidence that what type of service they are providing. There is lack of transparency and corruption has taken place.

Table 4.23: Satisfaction towards services provided to taxpayers

Status	Frequency	Percentage	Cumulative Percent
Yes	10	62.50%	62.50%
No	6	37.50%	100.00%
Total	16	100.00%	

Diagram 4.23: Satisfaction towards services provided to taxpayers

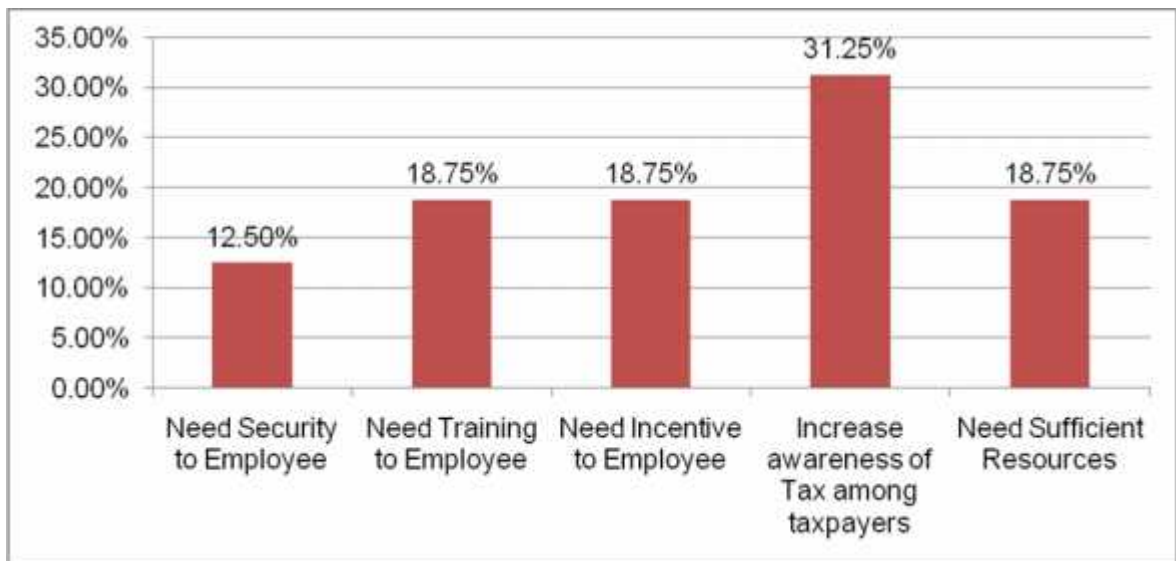


The above table 4.23 and diagram 4.23 show that 62.50% of the total respondents are saying that they are satisfied towards the services provided to taxpayers. It is a contradiction phase because 93.75% of the respondents are saying that there is not transparency. A question can be raised that it is possible to be satisfied towards the services provided to taxpayers in the absence of the transparency.

Table 4.24: Comments and Suggestions

Status	Frequency	Percentage	Cumulative Percent
Need Security to Employee	2	12.50%	12.50%
Need Training to Employee	3	18.75%	31.25%
Need Incentive to Employee	3	18.75%	50.00%
Increase awareness of Tax among taxpayers	5	31.25%	81.25%
Need Sufficient Resources	3	18.75%	100.00%
Total	16	100%	

Diagram 4.24: Comments and Suggestions



The above table 4.24 and diagram 4.24 show that suggestions collected from the middle level officials in favor of: need security, need training, need incentives, increase awareness of tax among taxpayers and need sufficient resources are 12.50%, 18.75%, 18.75%, 31.25% and 18.75% of total respondents respectively. This indicates that there are various factors which play effective roles in the whole tax administration as well as tax audit.

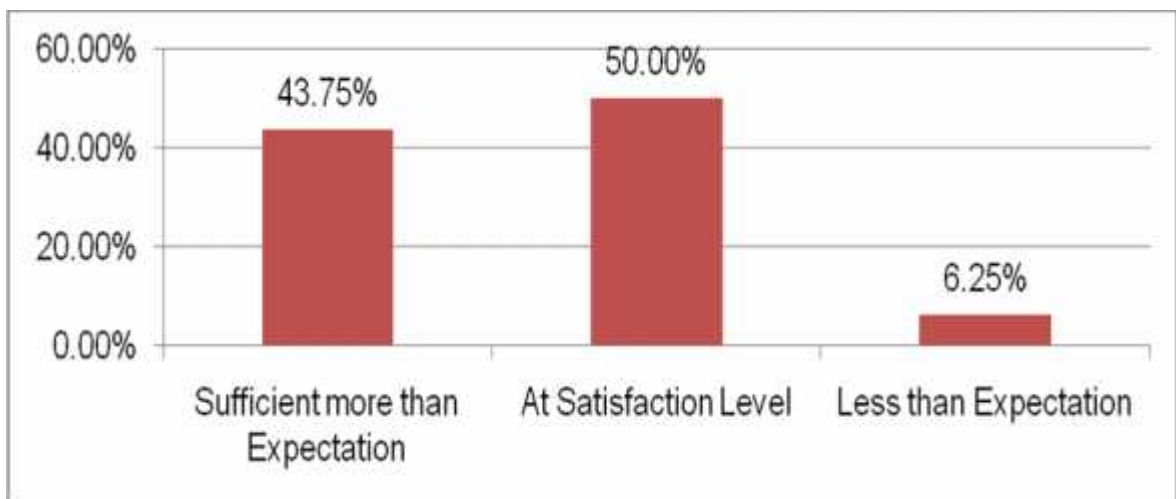
Question Set C: Only For Middle Level Officials

There were five questionnaires for the middle level tax officials in Set C. This set of questionnaire was distributed among the 16 samples. There was 100% participation of the samples.

Table 4.25: Audit target of tax officials

Status	Frequency	Percentage	Cumulative Percent
Sufficient more than Expectation	7	43.75%	43.75%
At Satisfaction Level	8	50.00%	93.75%
Less than Expectation	1	6.25%	100.00%
Total	16	100%	

Diagram 4.25: Audit target of tax officials

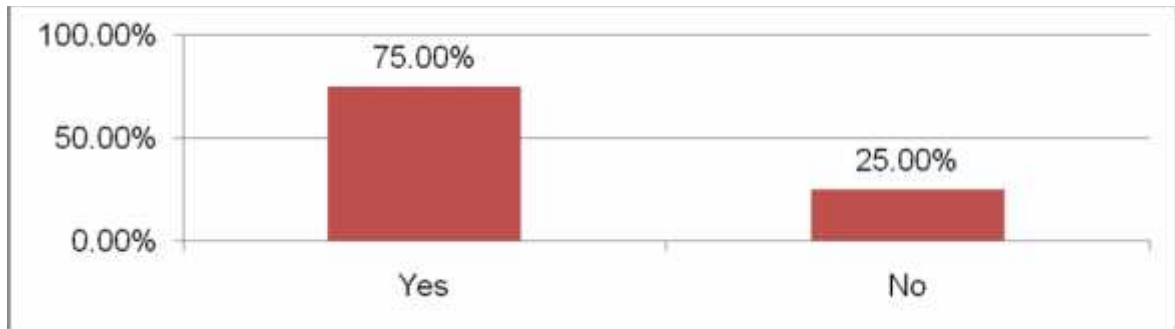


The above table 4.25 and diagram 4.25 show that the audit target is satisfactory level as per respondents because 50.00% of the respondents are claiming it. There are only 6.25% of the total respondents who say that there is audit target less than expectation.

Table 4.26: Achievement of audit target

Status	Frequency	Percentage	Cumulative Percent
Yes	12	75.00%	75.00%
No	4	25.00%	100.00%
Total	16	100.00%	

Diagram 4.26: Achievement of audit target

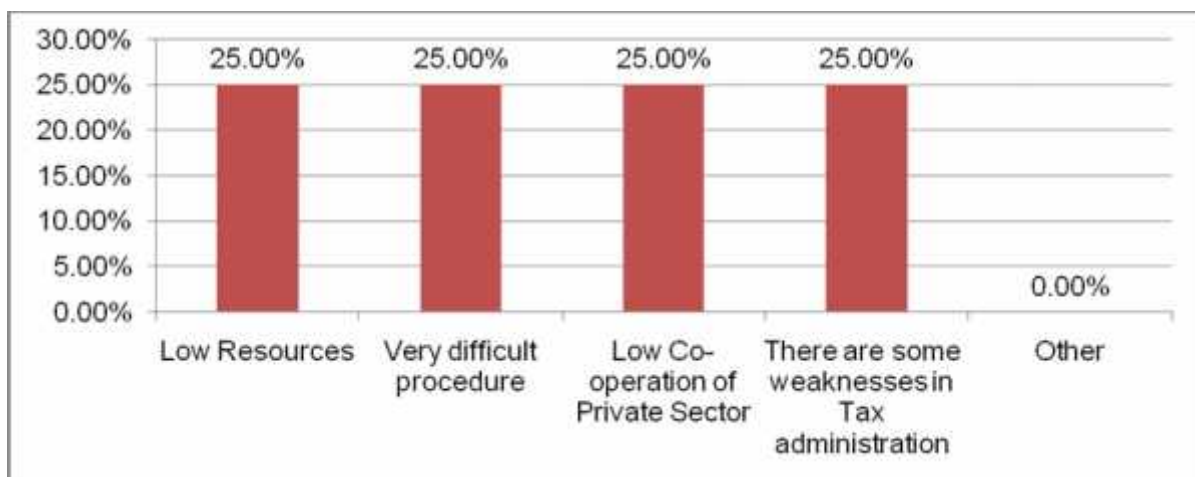


The above table 4.26 and diagram 4.26 show that there 75.00% respondents who believes to get achievement of tax audit target.

Table 4.27: Cause for not achieving the target

Status	Frequency	Percentage	Cumulative Percent
Low Resources	1	25.00%	25.00%
Very difficult procedure	1	25.00%	50.00%
Low Co-operation of Private Sector	1	25.00%	75.00%
There are some weaknesses in Tax administration	1	25.00%	100.00%
Other	0	0.00%	100.00%
Total	4	100%	

Diagram 4.27: Cause for not achieving the target

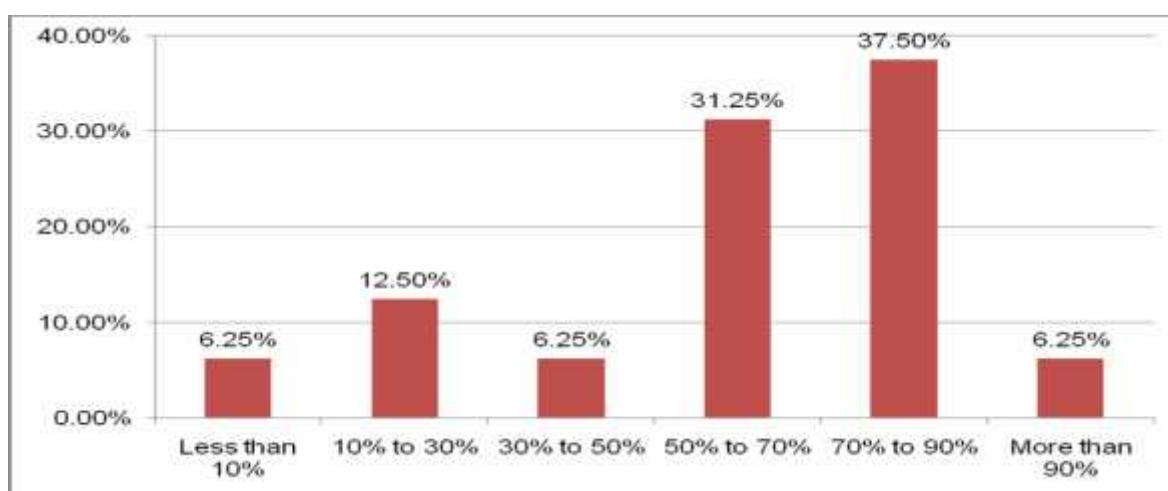


The above table 4.27 and 4.27 indicates that there are some causes for not achievement of tax audit target. They are low resources, very difficult procedures, low co-operation of private sectors, and weaknesses in tax administration. (Cause of No concerning to Table 4.26: Achievement of audit target)

Table 4.28: Tax audit performance in a month

Status	Frequency	Percentage	Cumulative Percent
Less than 10%	1	6.25%	6.25%
10% to 30%	2	12.50%	18.75%
30% to 50%	1	6.25%	25.00%
50% to 70%	5	31.25%	56.25%
70% to 90%	6	37.50%	93.75%
More than 90%	1	6.25%	100.00%
Total	16	100.00%	

Diagram 4.28: Tax audit performance in a month

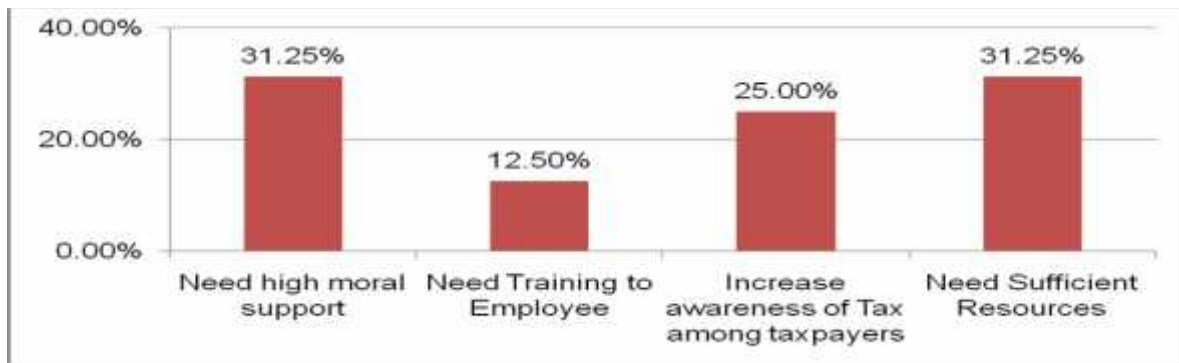


The above table 4.28 and diagram 4.28 show that the range of tax audit performance in a month is 70% to 90% because 37.50% of the respondents are in favor of this range. 31.50% respondents are in favor of range 50% to 70% tax audit performance in a month. Only 6.25% are in favor of range more than 90%, less than 10% and 30% to 50% tax audit performance in a month. Regarding this data we can claim that the performance of tax audit in a month is at the level of satisfaction.

Table 4.29: Comments and Suggestions

Status	Frequency	Percentage	Cumulative Percent
Need high moral support	5	31.25%	31.25%
Need Training to Employee	2	12.50%	43.75%
Increase awareness of Tax among taxpayers	4	25.00%	68.75%
Need Sufficient Resources	5	31.25%	100.00%
Total	16	100.00%	

Diagram 4.29: Comments and Suggestions



The above table 4.29 and diagram 4.29 indicates some factors that should be kept in focal point to improve whole tax administration and the tax audit system. There should be high moral support, sufficient training, awareness of tax among taxpayers, and sufficient resources etc. if we wanted to have an effective and transparent tax administration as well as to keep the whole taxation system.

4.3 Finding

When some text book of Tax, Taxation, Audits, are studied and simultaneously went thoroughly Tax Laws, Tax Audit Directives of Nepal and Some Precedents established by Supreme Court with paralleling financial data and survey data, the following findings are made:

-) Act and Rules related to Value Added Tax are in initial stage of implementation broadly. There are some gaps between the policy formation and implementation phase.
-) The amendment made through finance act creates a little bit confusion among the tax payers and potential investor.
-) The growth of portion of Value Added Tax is increasing day by day.
-) The Value Added Tax has occupied a major part in public revenue.
-) It is very bitter to say that the quality of tax administration is very poor.
-) The self-assessment tax system is applied but the assessment of tax liability is not made by taxpayers. A large number of taxpayers are still depended upon others.
-) The awareness of taxpayers and other people in case of tax law is very low.

- J There is high chance to exploit the people by tax officers and tax consultants because of vague language of Income Tax Act and Rules.
- J In the eye of tax administration they are master of tax payers. They have right to imposed anything and in the eye of tax payers they are free to disregard the law and regulation and think that tax officer and administration do not work properly. In the eye of consumers the tax officer and administration are not transparent.
- J It can be stated that taxpayers are always want to hide actual transactions out of the respondents who said that the taxpayers are not cooperative while conducting tax auditing.
- J Most of the taxpayers are against the transparency in the action taken by tax officials. It means tax officials themselves are not confidence that what type of service they are providing. There is lack of transparency and corruption has taken place.
- J Although the Tax Officials claiming that there is satisfaction of taxpayers upon the service provided by them. As well as they believes that there isn't transparency in the same time. It is a contradiction phase. A question can be raised that it is possible to be satisfied towards the services provided to tax payers in the absence of the transparency.
- J There are some requirements to have an effective and efficient tax administration to conduct the tax audit task, some of them are: need security, need training, need incentives, increase awareness of tax among taxpayers and need sufficient resource.
- J The Tax Officials believe to get achievement of tax audit target.
- J Some causes so that it has been difficult to have got achievement of tax audit target are: low resources, very difficult procedures, low co-operation of private sectors, and weaknesses in tax administration.
- J We can claim that the performance of tax audit in a month is at the level of satisfaction.
- J Some factors that play important role to improve whole tax administration and the tax audit system are: high moral support, sufficient training, awareness of tax among taxpayers, sufficient resources etc.
- J Value Added Tax Act and Value Added Tax Rules have guaranteed not to register compulsorily for Value Added Tax Purpose.

- J Value Added Tax collected is major portion in public finance. The contribution of Value Added Tax in Total Revenue is increasing day by day. Its contribution observed 50%, 47%, 52%, 55%, 51%, 50%, 48% and 49% in the fiscal year 2059/60, 2060/61, 2061/62, 2062/63, 2063/64, 2064/65, 2065/66, 2066/67 respectively.
- J Contribution of Internal Revenue was 11.40% in fiscal year 2059/60 and 15.22% in fiscal year 2066/67. It shows that there were gradually increased in the fiscal years 2060/61, 2061/62, 2062/63, 2064/65, 2065/66. It was observed that contribution of Inland Revenue Department on GDP was increased 5.73% in fiscal year 2059/60 to 13.22% in fiscal year 2066/67.
- J The increment of Value Added Tax is increasing from 109.72% in the fiscal year 2059/60 to 130.43% in the fiscal year 2061/62. The increment rate has gone down to 114.43% in fiscal year 2062/63. It has been 122.89% increment in fiscal year 2063/64. Again the increment rate has gone down to 114.26% in fiscal year 2064/65. And again it has been 138.54% increment in fiscal year 2066/67. The trends shows that incremental rate of VAT has been fluctuate in the different year. There Indicator to measure the result of effectiveness is based on Number of tax declaration received on time/total on time/total number of tax declaration filed.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

In developing countries like Nepal, shortage of sufficient financial resources is the main constraint for national development. A lot of fund is required to meet the additional financial requirements for the development activities of the country. Nepal has been suffering from capital shortage to accelerate the economic growth. The expenditure of Nepalese government is increasing year by year. To meet the additional capital requirements Nepalese government has been using external and internal resources. Internal resources are preferable for sustainable economic development.

Tax is the most important source for internal sources in which better Tax system assist to achieve that goal. Tax auditing system play crucial role to systematic mobilization of tax system which verify the accuracy and completeness of the tax accounting records and procedures of business, Government units and other reporting entity. It may be conduct by a member of the organization (internal audit) or by an outsider (independent audit).

VAT is a recent and an important innovation in the field of modern taxation system. After its origin in Germany it gained worldwide popularity at the academic as well as practical level, so in more than 125 countries VAT has already implemented. VAT is a specific type of turnover tax levied at each stage in production and distribution process. Nepal introduced VAT in 1997 to develop the source of revenue and to improve the tax system by broadening the tax base. But there are many hurdles, to sound implementation of VAT in Nepal.

In second chapter, Conceptual framework is discussed about tax which is a permanent and major internal source of public finance. It deals with meaning, definition and concept of tax, tax system, tax auditing procedures, legal provisions for auditing and implementation of the audit plan. The literature review has made through the study of various books, articles, dissertations and other reference

materials. Various concepts of audit and taxation have been discussed in this study. Various pertinent books, article, dissertations, publications and other materials are observed during the study. They have been found written on various aspects of tax auditing procedures.

In third chapter, it has been discussed about various aspects of research methodology. Such a research design used for this study, data collection procedure, population and sample, nature and sources of data, selection of the respondents, procedure of processing and analysis of data.

The fourth chapter consists of both primary as well as secondary data which has been analyzed to give the meaningful result. Economic surveys, budget, speeches, annual reports of Inland Revenue Department and websites of NRB, MOF, IRD, etc. were the major sources secondary data. Primary data has been collected by opinion in the different set of questionnaires from target sample. It has been collected via Business Houses, Tax Experts, Administrators, and Tax Payers. Business Houses are selected from Sole Proprietorship, Partnership, Private Ltd., Public Ltd. and Join Venture Company. Tax Experts are selected from Lecturers of TU, Auditors, Chartered Accountants, Executive from NRB, and Lawyers & Intellectual having well knowledge of Tax. Tax administrators are selected from Tax Department, various IRD offices within the Kathmandu valley. Tax Payers are selected from different Manufacturing Companies, Trading Companies, Various Industries, Banks, Finance Companies, Airlines, Departmental Stores, Shopping complex, etc.

Secondary analysis was done by presenting the relevant data into tables and figures consisting Eight-Years period, i.e. from fiscal year 2059/60 to 2066/2067. The comparative analysis for different years was done in the analysis part of the study. Major findings of the secondary data analysis have been put at the end of the chapter. Data obtained from opinion survey with the respondents were tabulated and analyzed to achieve desired end result.

This study has tried to present crystal clear picture of taxation on VAT with respective analysis & assessment. Effort has made to maintain balance between

the theories and actual practices. The researcher hopes that the study has been completed with the successful achievement of the stated objectives.

5.2 Conclusion

The Value Added Tax, 2052 replaced the existing four kinds of taxes. These are Hotel Tax, Contract Tax, Sales Tax and Entertainment Tax. It has tried to connect the society to government through the revenue. It is a throat cut reality that without tax law no state can survive. If the society is aware of tax and tax laws, it shall be very easy to collect the tax. Similarly, the major duty of government is to deliver the facilities to the people as per their requirement. The mutual understanding creates a sound relationship between society and government. Because of positive correlation between society and government it has been necessary to have participative role to make laws which is the major concerned.

It is time to think about the participative model in case of all type of Laws. Specially, revenue generating laws like taxes laws play important role in development of country because it contributes a large portion in public finance. When people themselves realized that their contribution is not only for their generation but also it shall be for their next generation to following generation, there will be no fraud, evasion and corruption. It is felt that the tax administration with politicized bureaucracy is no longer beneficial to the country. It should be fundamental right to have clear cut knowledge about the tax laws to each and every citizen or residence of Nepal. For this purpose, the government can play vital role to disseminate not only income tax law but also each and every laws to the people who are in any corner of the country. Because laws are made for people and why we do not give facilities to let them know the laws under which they are being governed.

5.3 Recommendation

So far as recommendations are being for only recommendation. There is no further use of recommendation made after going a research. It's being just a formality of research. Any way the following recommendations are pointed out:

- J The Value Added Tax Laws should be very easy and clearly written so that it would not be difficult to have clear cut meaning of each and every word written in laws.
- J There should be participation of large number of people from each and every sector in making Tax Laws.
- J The quality of tax administration is very poor so that the bureaucracy should be converted in to human resources developing their competencies and sufficient training should be made.
- J Before launching any law, its effectiveness should be studied keeping the long term vision.
- J Laws are not absolute but they are of dynamics nature. But frequently amendment, without changed in core circumstances, should not be made to avoid confusion and difficulties in implementation stage.
- J Taxes are the heart of Government without which no government can function well. So that it is very necessary to discuss about the tax laws and rules before launching and making amendment it.
- J The effectiveness of prevailing laws should be measure in time to time. It helps to find out its weaknesses and strengths point. Analyzing the weaknesses point it shall be improved in coming days.
- J Any law should have long term vision because law guides the society and determines the goal of country where it does excel in present and future.
- J Laws are the roadmap of society because laws are imposed to have a sound society. Therefore, Value Added Tax is a major law among other laws because it helps to acquire public finance which is used to deliver various facilities to the people for their betterment.

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APPENDIX – I

Dear Sir/ Madam

I am a student of Master of Business Studies (MBS) of Tribhuvan University and the completion of Dissertation is one of the parts of course. I want to gather some valuable information to answer the research question '*Is Tax Auditing System adopted by taxpayers and Inland Revenue Department in systematic manner?*' I would be grateful if you provide the best answer as far as possible.

The information that you provide shall be strictly used exclusively for the purpose of this research only.

Yours,

Manoj Shrestha
MBS II Year
Shankar Dev Campus
Putalisadak, Kathmandu

Personal Details of Respondent:

1. Name:
2. Address:
3. Sex (Tick): a) Male b) Female c) Third
4. Age:
5. Employer:
6. Designation:
7. Employment Status (Tick):
 (a) Permanent (b) Temporary (c) Contract
8. Are you a Taxpayer? (Tick): a) Yes b) No

Question Set A: Only for Businessmen

Please tick (✓)

1. What type of business are you operating?

Sole Proprietorship	Partnership	Private Limited	Public Limited	Joint Venture

2. If you are a taxpayer, how long have you been paying taxes?

Less than 1 year	1 year to 5 years	5 years to 10 years	More than 10 years

3. Do you have regular contact with tax officer or tax personnel? If yes, specify time period in that duration you meet them.

Every Month	Every 3 Months	Every 6 Months	Every 1 Year	Every 3 Year	Never

4. What purpose have you visited to the tax office or tax officials for?

Purposes of Visiting	
Filing of Tax Returns	
Paying Taxes	
Tax Audit	
Receiving Information	
Receiving Tax Clearance Certificate	
Tax Refund	
To Complain tax official	
For tax document	
Others	

5. How would you get information relating to tax?

Sources of Information about Tax	
Print Media	
Television	
Radio	
Internet	
Tax Office	
Private Lawyers & Auditors	
Employees	
Others	

6. How would you rate quality of services of Inland Revenue Department/ Offices?

Very Poor	Poor	Good	Very Good	Best

7. Do you felt, the qualities of services are improving than previous years?

Little Bit Higher	Perfectly Higher	No	Not at all

8. If you don't mind, do you have idea about tax audit?

Little Bit Higher	Perfectly Higher	No	Not at all

9. How do you calculate tax?

With the help of Tax Expert	With the help of Employee	Self-Calculation

10. How do you realize the difference between business audit and tax audit?

Both audit are same	Not Same. Tax audit is conducted by tax officers & other is by business auditor

11. What is your opinion about the quality of tax audit?

Very Poor	Poor	Good	Fair	Transparent	Do not Know

12. How do you rate the tax procedure and administrative mechanism? Please give () sign for best satisfactory statement)

Ease in filling up the tax forms	
Simplicity and clarity in procedures in submitting	
Ease in complying with tax process	
Fairness in decision made by the tax officials	
Overall & generable perception of tax mechanism & administration	
Ease in getting tax refund	

13. How do you judge the quality of tax office? (Please follow above procedures)

Appropriate location of Tax office	
Response of tax officials to questions/ problems	
Tax officials behavior in dealing the tasks such as friendly, fairness	
Getting to job	
Ease in locating and contacting right persons in the tax office	
Overall satisfaction with service provided	

14. Do you know the tax auditing procedure?

Yes	No

15. Do you feel tax officials are honest and transparent in process?

Yes	No

16. Please list any other comments and suggestions you may have but not covered by this questionnaire yet.

.....

.....

Question Set B: Only for low level tax officials

1. How many taxpayers should be covered under tax audit?

10% of total taxpayers	
25% of total taxpayers	
50% of total taxpayers	
75% of total taxpayers	
100% of total taxpayers	

2.1 Are taxpayers co-operative while conducting tax audit?

Yes	No

2.2. If not, what might be the cause?

Low awareness towards taxes of Taxpayers	
Taxpayers always want to hide actual transactions	
Taxpayers are not supporting the tax Laws & policies	
Tax Laws are difficult to understand	
There are some weaknesses in Tax administration	
Other	

3. Do you agree with the statement that there is no transparency in the action taken by officials?

Yes	No

4. Are you satisfied with the services provided to taxpayers by the tax office and officials?

Yes	No

5. Please list any other comments and suggestions you may have if it is not covered by this questionnaire?

.....

.....

Question Set C: Only for middle level tax officials

1. Your audit target is:

Sufficient more than Expectation	At Satisfaction Level	Less than Expectation

2. Do you use to achieve your audit target?

Yes	No

3. If not, what may be the cause for not achieving the target?

Low Resources	
Very difficult procedure	
Low Co-operation of Private Sector	
There are some weaknesses in Tax administration	
Other	

4. How many tax audits do you perform in a month?

Less than 10%	
10% to 30%	
30% to 50%	
50% to 70%	
70% to 90%	
More than 90%	

5. Please list any other comments and suggestions you may have but is not covered by this questionnaire?

.....

.....

APPENDIX – II

TAX ASSESSMENT ORDER

Date.....

To

.....

1. Name of Taxpayer:

2. Address of Taxpayer:

3. Tax Assessment Period:

4. Tax Assessment under Section..... of the Act and Rule..... of the rules

In case you have any concrete evidence for not paying the tax amount of Rs.....(In words..... only) to be paid you as mentioned below or for having it revised, you are hereby requested to submit the same before the Tax Officer within 7 days from the date of receipt of this letter. Otherwise, you are requested to pay cash or deposit the amount in the..... Bank located at.....A/C Number is.....so as to be credited to the consolidate fund of Nepal Government within 14 days from the date of receipt of this letter of order. You are also hereby informed that you file a petition according to the act in case you are not satisfied with this Order.

Reason for Assessment

- Failure to make a VAT Return
- Failure to make a Income Tax Assessment fairly
- Submission of Incomplete VAT Return
- Submission of False VAT Return
- Other

Tax Officer

1. Month..... Year
2. Month..... Year
3. Month..... Year
4. Month..... Year
5. Month..... Year
6. Month..... Year

CROSS CHECKING FORM

Date of Issue: Tax Officer: IRD:					
Visited Person:		Purchaser: <input style="width: 80px;" type="text"/>	Contract No:		
		Seller: <input style="width: 80px;" type="text"/>	Contract No:		
<u>Purchaser</u>					
Name: Address:					
Contact NO: PAN:					
<u>Seller</u>					
Name: Address:					
Contact NO: PAN:					
Goods:					
Invoice Number: Date of Issue:					
S.N.	Description	Quality	Per unit Price	Total Price	
Total					
Exempt					
Other Tax					
Taxable Value					
VAT					
Grand Total					
Payment Description: (Such as date, voucher number, bank, cash etc.)					
.....					
Total transaction, including this invoice, voucher, between the seller and buyer:					
Period Form: To Total Amount:					

TAX AUDITING REPORT

INTERNAL INFORMATION

1. Details of Taxpayer

Name:		Tel No:	
Address:		Cell no:	
Tax payer's identification/ income tax permanent A/C No.:		Fax No:	
Nature of Business:		E-mail:	
Nature of Registration:		Age:	
Date of income details submission:		Date:	
Type of ownership:			

2. Proprietor / Operator / Management / Responsible person's details

Name	Designation	Name	Designation

3. Main Branch / Branch / Sub-Branch Details:

--

4. Accounting System (Manual and / or Computerized, etc)

--

5. Contact Person for Auditing Purpose:

Name	Designation	Contract No.

6. Finance and Tax Auditor:

Finance Auditor:		Tax Auditor:	
Name:		Name:	
Address:		Address:	
Tel No:		Tel No:	
Cell. No:		Cell. No:	
Reg. No:		Reg. No:	
Reg. Date:		Reg. Date:	
Class:		Class:	
E-mail:		E-mail:	

BASIC STATISTICS

1. Business Details

Purchase	Sales
Opening Balance	Closing Balance
Net Profit	Net Profit

2. Profit and Loss Details:

Administrative Expenses	Miscellaneous Income	
Salary / Wages Expenses	Gross Loss	
Internal Expenses		
Provision Account		
Reserve Account		
Bonus Expenses		
Other Expenses		
Gross profit		

3. Balance Sheet related details:

Share Capital	Fixed Assets	
Reserve	Current Assets	
Loan	Investment	
Current Liabilities	Debtors	
Creditors	Value Added Tax	
Value Added Tax	Income Tax	
Income Tax	Reserve Loss	
Dividend	Pre-operating Expenses	
Reserve Profit	Initial Expenses	

4. Profit and Loss Application Details:

Distribution Dividend	Reserve and Surplus
Other Amount	

5. Details of Value Added Tax:

Tax on Purchase	Adjusted from Tax Statement
Tax on collection on Sales	Debit
Tax Exempt Purchase	Credit

6. Major Raw Materials:

Name of Raw Material	Opening Stock		Purchase		Consumption		Closing Stock	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount

7. Semi-Product Materials / Goods Details:

Name of Items	Opening Stock		Purchase		Consumption		Closing Stock	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount

8. Major Finished Goods Production and Sales:

Name of Items	Opening Stock		Purchase		Consumption		Closing Stock	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount

9. Stock valuation system / mention if different from last year:

.....

10. Tax Exemption Date

11. Depreciation Policy / mention if different from last year:

.....

12. Taxable Sales:

.....

13. Tax exempt / Duty free sales incomes:

.....
14. a) Sales Related to Income Tax: b) VAT Sales.....

15. Zero Rate VAT sales and Income
.....

16. Taxable Income as per self-assessment system:
.....

17. Net Income as per self- assessment system:
.....

Particular	Amount	Particular	Amount

18. Income Tax Calculated:

19. Installment Tax Payment:

Date	Installment
Date:	1 st 40% Installment
Date:	2 nd 70% Installment
Date:	3 rd 100% Installment
Date:	Other Adjustable Tax

20. VAT / Income Tax Refund Details

Duration of return of Tax	Claimable Amount	Refund Amount	Date

AUDITING

1. Purchase (Purchase ledger, TDS, Invoice, Voucher, Import License, Letter of Credit, Creditor etc.):

2. Sales (Zero rate VAT sales, Tax collection, Export License, Invoice, Sales book or Ledger)

3. Cash / Bank / Bank Statement:

4. Stock Book:

5. Production Ledger:

6. Tax Exemption Income:

7. Investment Statement (Treasury Bills, Sister Concern, Share Investment, etc.)

8. Loan from Director:

9. Loan to the Director:

10. TDS Details:

11. Tax free income related expenses:

12. Transactions between taxpayers:

13. Data received in the office:

14. Transaction between taxpayers:

15. Cost Price Local and Export Sales Price or Other Price List:

16. Financial Ratios:

Gross Income	Net Income	Current	Debt Equity
VAT	Adjusted VAT	Dividend per Share	

17. Report of Chartered Accountant if any:

18. Statement of discussion and information provided to the taxpayer:

THINGS TO BE INCLUDED IN THE DECISION
--

1. Amount and Reason for addition tax assessment of VAT:

2. Amount and Reason for addition tax assessment of Income Tax:

MISCELLANEOUS

1. Type of Auditing (Internal / Detail / On the Spot Auditing):

2. Auditing notice date:

3. Date of Auditing: From Up to

4. Date of submission of audit report to Inland Revenue Department:

5. due tax, Last year's net profit and brief statement of appeal:

APPENDIX – III

Preparation for Full / Joint Audit

Information to be collected	Date & Signature Remarks
General, why has the taxpayer been selected for the audit?	
P/L Account & B/S has been collected & Analyzed	
Previous audit reports and notes from colleges have been studied	
Closing balance and trail balance have been collected and analyzed	
Estimate whether a preliminary meeting should be held at the taxpayer's premises or not	
Line of Business Financial Factor Has the tax office knowledge to special conditions within the line of business (from the press, annual report)	
Accounting System Do the lines of business use a special accounting system?	
Go through papers in similar cases within the same line of business	
Typical errors within the same line of business	
Legal Demands Is there any public approval of quality control of goods and services from the business?	
Has new legislation being passed of importance to the line of business?	
Organization of the taxpayer Ownership Who owns the firm? Proprietorship or Limited Company	
By concern: Investigate mutual relations	
Does the proprietor(s) own other business at the same address which have connection to the owner(s) or his family	
Is there community of interests in the boards? Are relatives represented in the boards?	
Has any changes been made in the managing structure?	
Staff Relations Is there any relation between owner(s) and staff or between management and staff?	
Is there any staff benefit?	

Are leasing/factoring used?	
Has the tax organization been used as “overdraft facility”?	
Is taxpayer in arrears or has the taxpayer been in arrears with VAT or Income Tax	
Relation to accounting Information about the taxpayers Income Tax and VAT return have been collected	
Information about the taxpayers imports and exports have been collected from ASYCUDA from the customs department	
Key figures for the taxpayer and for the line of business	
Examine and judge the profit and loss account	
Essential changes in number of accounts compared to Previous years Is the accounting system similar to the line of business and previous years	
Have the taxpayer recently replaced the external auditor?	
Do the P/L accounts from other sources including anonymous information	
Information from news paper and magazine	
Has any further information about the taxpayer received?	

APPENDIX – IV

Audit Check List

PAN:

NAME:

Audit acts carried out by above mentioned taxpayers:

Issues	Period
<u>1. In General</u>	
At the beginning of the visit interview the owner or an authorized officer of the business to determine the nature of the business	
Request a tour of the business premises to confirm that the business activities being carried on are the same as those as described by the owner or authorized officer	
Compared information in the application form to actual facts, e.g. address, and telephone number, ownership, if changes reported to registration officer	
Compared balance in business account to profit and loss accounts and balance account. Were they identical?	
Has the taxpayer kept and maintained records in accordance to section 16, subsection 3 in the VAT act and section 23 in the VAT act and clause 81 in the Income Tax Act?	
<u>2. Sales</u>	
Examined sales invoices to confirm that they are presented in triplicate and contain all the information specified in schedules 5 & 6 of the VAT rules	
Checked the invoices for a period to verify that they are consecutively numbered and that all invoices are accounted for	
Confirmed that all sales invoices have been recorded by tracing the sales invoices to the sales accounts and the sales book	
Verified that the sales are properly categorized as taxable, tax exempt or export	
Confirmed that export documentation is available to verify the export sales. The export documentation could include the following:) Customs declaration form) Commercial Invoice to the foreign customer) Export duty payment) Bill of entry from foreign customs) Carrier if bill of landing) Letter of credit from banks) Purchase order or corresponding from foreign customs	

Compared sales invoices to bank statements to make sure that all sales have been recorded for	
Examined shipping documents and relate to sales invoices to make sure that all sales have been recorded for	
Calculate figures in the sales book to make sure that the taxpayer's additions are correct	
Verified that sales on credit(debtors) have been accounted for in the sales book	
<u>3. Purchase</u>	
Verified that all purchases invoices where input tax has been claimed including VAT & PAN number of seller and buyer	
Traced the supplier invoices and import entries to the purchase book. Verified the totals of the purchase book	
Examined bank statements to determine the number of payments for letters of credit. Compare the number of import entries recorded in the purchase book	
Examined invoices where input tax has been claimed to confirm that VAT has not been deducted for purchases of beverages, alcohol mixed beverages such as liquors or beers, light petroleum fuel for vehicles or entertainment expenses – rule41	
Verified that input tax has been claimed only at the reduced rate on purchases of automobiles(40%) – rule 41	
Examined import entries and confirmed that only VAT paid at time of entry has been claimed as input tax	
Verified that input tax has been correctly calculated if the taxpayer has both taxable and exempted sales	
Verified that all purchases on Credit(Creditors)have been accounted for the purchase book	
<u>4. Assets</u>	
Inspected the cash in hand. Done a cash check and compared to the cash account	
Inspected the stock book. Done a stock take, and compared to the purchase and sales invoices and the stock book	
Inspected investments larger than 50,000.00 to make sure that the fixed assets are present and used for taxable transactions	
Inspected buildings to verify that input tax has been claimed only for building used for taxable transactions	