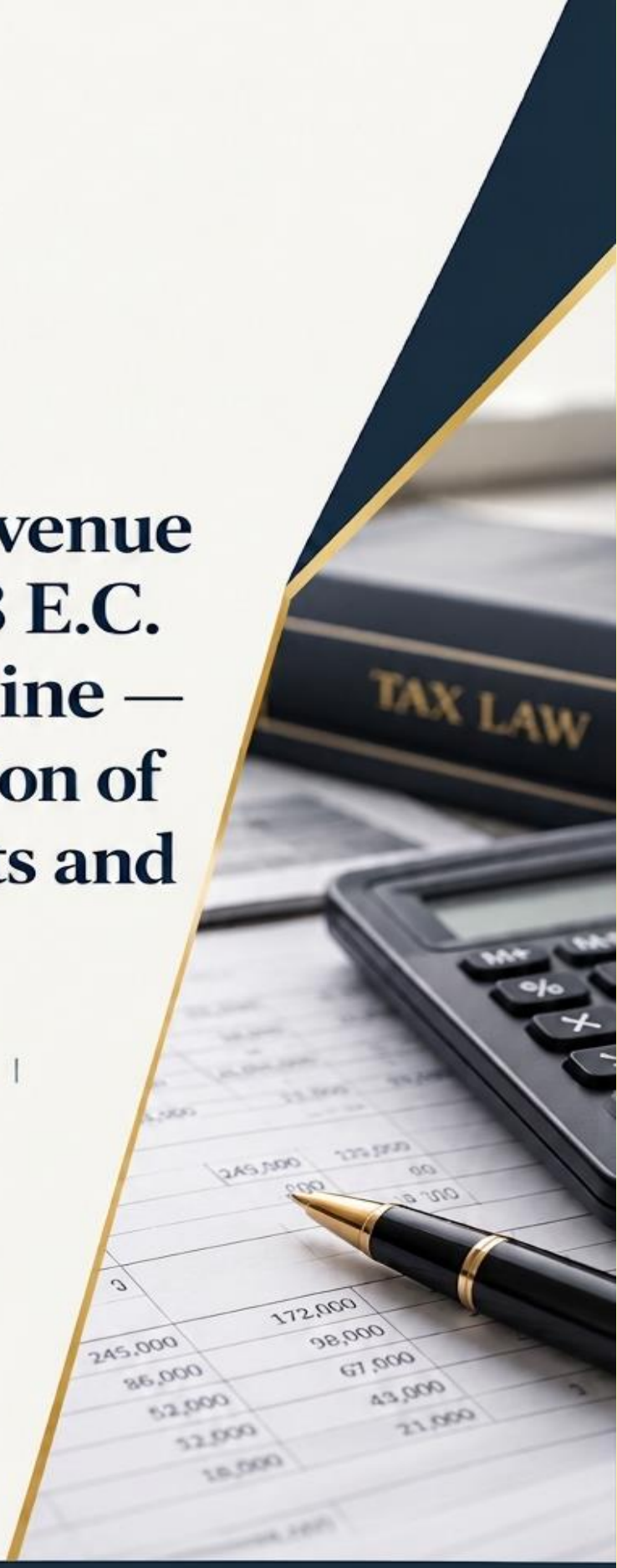
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LEGAL UPDATE

Addis Ababa City Administration Revenue Bureau Issues 2018 E.C. Desk Audit Guideline — Part One: Verification of Financial Statements and Declared Figures

Desk Audit Guideline for the 2018 E.C. Tax Year | Addis Ababa City Administration Revenue Bureau | October 2026 E.C.



Addis Ababa City Administration Revenue Bureau Issues 2018 E.C. Desk Audit Guideline, Part One: Verification of Financial Statements and Declared Figures

1. Introduction

The Addis Ababa City Administration Revenue Bureau has issued its Desk Audit Guideline for the 2018 E.C. tax year. The Guideline sets out the framework for reviewing the tax returns and financial statements submitted by taxpayers, and it is intended to ensure uniformity across all offices in verifying that taxpayers submit complete and accurate books of account. It is framed as a tool for improving voluntary compliance rather than as a substitute for a full audit, but its content is detailed and its reach is broad.

This is the first of a three-part series. Part One examines the verification of payroll and employment tax, the scrutiny of the balance sheet, the testing of the profit and loss statement, and the identification of income reduction and expense inflation. Part Two will address sector-specific focus areas and digital income. Part Three will address documentation standards and practical implications.

2. Verification of Payroll and Employment Tax

The Guideline directs auditors to verify the number of employees and their occupational categories, and to confirm that employment income tax has been paid in proportion to the workforce. Auditors are instructed to check whether there has been a change in headcount from the previous tax year, whether wages have increased substantially, and whether the resulting changes in employment income tax and pension contributions are reflected in the declarations.

The Guideline also requires verification of employment contracts, including whether they have been witnessed or stamped, and whether the taxpayer maintains a payroll system and a documented salary disbursement mechanism. It addresses benefits paid in addition to salary, the treatment of salaries paid to owners or family members, and the reconciliation of withheld employment income tax and pension contributions with payments made to the revenue office. Unpaid withholdings recorded as liabilities are to be examined, and where they are recorded without justification, interest and penalties are to be applied. The section is therefore not limited to a headcount check. It tests the entire payroll cycle, from contract to withholding to remittance.

3. Verification of the Balance Sheet

The Guideline treats the balance sheet as a central document for desk audit. Auditors are instructed to examine the relationship between expenses and balance sheet accounts, including prepayments, receivables, payables, and fixed assets. Specific attention is directed to receivables, which are to be tested for existence through sample verification, review of cash receipts, and confirmation from debtors. Where receivables

are found not to exist, or where the taxpayer acknowledges that the recorded amounts are erroneous, the books are to be adjusted and tax determined accordingly. Where receivables are found to have been collected in cash but not recorded, the matter is to be handled under the cash payment and administration enforcement procedures.

The Guideline also addresses advances, accrued income, and other receivable categories, and requires the auditor to examine whether amounts recorded as owed by owners or related parties are genuine. It further addresses the capital account, requiring verification that increases in capital are sourced from taxed income or from exempt sources, and that capital is properly registered and reflected in the books. Bogus or unreal capital is to be identified and treated as taxable income. The balance sheet section therefore operates as a test of whether the declared financial position is real, and whether movements in equity and related-party balances are supported by evidence.

4. Verification of the Profit and Loss Statement

The Guideline requires auditors to test whether the income and expenses reported in the profit and loss statement are consistent with tax law and accounting principles. Income is to be tested against monthly VAT and excise declarations, bank statements, and third-party data. Where declared income is lower than the income indicated by these sources, the taxpayer is to be asked to explain the difference, and where the explanation is unsatisfactory, the books are to be adjusted.

The Guideline also addresses the manipulation of purchases, including cases where purchases are overstated or understated relative to VAT declarations and third-party information. Inventory is to be tested against physical count reports, and where the closing inventory declared does not match the count, the difference is to be adjusted. Expenses are to be tested for legitimacy and documentation, with particular attention to depreciation, prohibited or restricted expenses, and expenses that lack valid receipts. The Guideline also addresses cases where a taxpayer reports no sales or purchases but declares only administrative expenses, and requires justification before such returns are accepted. The profit and loss section therefore tests the return against external evidence, and it treats discrepancies between the return and that evidence as a basis for adjustment.

5. Income Reduction and Expense Inflation

The Guideline identifies two principal categories of risk in desk audit: the understatement of income and the overstatement of expenses. On the income side, auditors are instructed to compare monthly VAT and excise declarations with annual income, to reconcile bank deposit movements with declared cash flows, and to examine whether income from all business lines has been included. On the expense side, auditors are instructed to examine whether expenses have been inflated through the inclusion of non-deductible items, unsupported purchases, excessive depreciation, or expenses that were rejected in monthly declarations but included in the annual return. The Guideline also

addresses the inclusion of expenses that did not generate income, and the inclusion of purchases that are not supported by proper documentation.

The treatment of these two categories is the analytical core of the Guideline. It directs auditors to look beyond the face of the return to the underlying transactions, and it provides the evidentiary tests — VAT declarations, bank statements, third-party data, and physical counts — that are to be used to test the declared figures. Where those tests produce a difference, the burden shifts to the taxpayer to explain it, and where the explanation is unsatisfactory, the books are to be adjusted and the tax determined accordingly.

6. What Part One Signals

For taxpayers, Part One of the Guideline signals that desk audit is not a formality. The verification of payroll, balance sheet items, and profit and loss items means that the figures declared in the return must be supported by documentation and must be consistent with third-party data. The emphasis on bank deposits, third-party data, and physical inventory counts means that discrepancies between declared figures and external evidence are likely to be identified. Taxpayers should ensure that their records are complete, that transactions are recorded under the correct account titles, and that supporting documents are available before the return is filed.

Disclaimer

This legal update is provided for general informational purposes only and does not constitute legal advice. The application of the Guideline may depend on the specific circumstances of a taxpayer, transaction, or return, and on the practice of the relevant revenue office. Professional legal and tax advice should be sought before relying on this update or taking any action.

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