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EFFECTS OF TAX AUDIT ON TAX COMPLIANCE IN EKITI STATE, NIGERIA

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ABSTRACT: *The paper examined the effects of tax audit on tax compliance in Ekiti State, Nigeria. The study employed primary data where 60 questionnaires were randomly distributed to Federal Inland Revenue Service and Ekiti State Board of Internal Revenue Service Staff. Multinomial Logistic Regression analysis was employed as the estimation technique. The findings revealed that the multinomial logistic regression model fitting information was significance with the p-value of 0.040 which implies that the tax audit can influence the tax compliance. Also, the likelihood ratio tests of multinomial regression showed that tax accuracy and current returns have not been significantly affecting tax compliance, that tax law has effect on tax compliance while tax procedure has no effect on tax compliance during the study period. The study concluded that tax audit is yet to make any substantial effect on tax compliance. It therefore recommended that the relevant tax authority at all levels should improve the standard of tax audit employed for effectiveness and efficiency and equally, relevant tax authority should provide a policy that would allow the tax payers to cooperate during the period of tax audit.*

KEYWORDS*:* Tax, Tax Audit, Tax Compliance, Government Revenue

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INTRODUCTION

Government is saddled with the responsibilities for providing basic amenities and other social services for her citizens. It is then required that governments source for funds from various sources to meet their obligations. Tax is one of the sources of revenue to the government, which contributes much more than any other source of revenue generation to the government of any country. However, Adedeji and Oboh (2012) opined that taxes are known to be the principal source of government revenue and the beauty of any government is for its citizen to voluntarily perform their tax responsibilities without much coercion and harassment. Modugu and Anyaduba (2014) are of the view that taxes are the inherent power of the state, exercised through the legislature, to impose financial burdens upon subjects within its jurisdiction for the purpose of raising revenues to carry out the legitimate duties of government. Badara (2012) opined that a tax is a compulsory levy through its agencies on the income, consumption, and capital of its subjects.

The tax audit is relevance in tax administration both in developed and developing countries of the world to avoid tax evasion and avoidance by the people and organisations. Slemrod (2000) also asserted that tax audit is one of the most effective policies to prevent tax evasion behaviour. According to Organisation for Economic Cooperation and Development (OECD, 2006) as cited by Modugu and Anyaduba (2014) that a tax audit is an examination of whether a taxpayer has properly assessed and reported their tax liabilities and meet other requirements. Meaning that tax audit conducts an investigation on the compliance of any forms of taxes either direct or indirect concerning their audited financial statements and other tax-related returns. However, non-compliance in tax systems remain an obstacle to tax administration, revenue generation

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and particularly to the government to meet developmental projects. Meanwhile, this study examined the effects of tax audit on tax compliance in Ekiti, Nigeria

Conceptual Clarifications

Audit and Tax Audit

Onuoha and Dada (2016) described audit as a means of giving credibility to an entity's financial information. The purpose of an audit is to provide an assurance to the true and fair view of the financial statement. An audit is equally seen as an on-site verification activity, for inspection or examination of quality system to ensure compliance with requirements. Soyemi (2014) cited by Onuoha and Dada (2016) that auditing ties into primary and secondary objectives. The primary objective is the expression of opinion on the true and fair view of the financial report while the secondary objective is to evaluate the internal control system and to frustrate fraud and error in an organisation.

Tax audit is established to stimulate tax compliance on taxpayers' return. According to Okonkwo (2014) as cited by Onuoha and Dada (2016) defines tax audit as an independent examination of accounts, tax returns, tax payments and other records of a taxpayer to confirm compliance with tax laws, rules and regulations and accuracy and correctness of tax paid and adhering to the relevant generally accepted accounting principles and standards. Jemaiyo and Mutai (2016) defined tax audit as an examination of an individual or organization's tax report by the relevant tax authorities in order to ascertain compliance with applicable tax laws and regulations of the state. However, the frequency of tax audits and investigations, in recent times, by the Federal Inland Revenue Service (FIRS) and the various State Boards of Internal Revenue (SBIR) has been on the increase Ojo and Sunmola (2017). Nonetheless, Adediran, Alade and Oshode (2013); Soyemi (2014); Okonkwo (2014); Ojonta (2013); and Onuoha and Dada (2016) discussed different types of tax audit which are desk or office audit, field audit, back-duty audit, registration audit, single audit and other special types of audit.

Tax Compliance

A tax system as one of the most effective means of generating a nation's internal resources and it lends to building a conducive environment to promoting the growth and development of the nation Akintoye and Tashie (2013). However, the non-compliance has been a major challenge affecting the features of tax in the society and in the nation at large. Tax compliance is seen as a process whereby taxpayers file all the required tax returns by declaring all income accurately and paying the exact tax liability using applicable tax laws and regulation Palil & Mustapha (2011b) and Masud, Aliyu, and Gambo (2014).

Empirical Review

In the study of Modugu & Anyaduba (2014), they examined the impact of tax audit and other qualitative attributes on the tax compliance level of companies in Nigeria. Their findings revealed that there exists a positive relationship between tax audit and tax compliance. The study then recommended that the relevant authorities should seek more rational and active means of enhancing the impact of tax audits on corporate tax compliance in Nigeria. Badara (2012) assessed the effect of tax audit on tax compliance in Nigeria a case of Bauchi State Board of Internal Revenue. The findings showed that tax audit reduces the problems of tax evasion that tax payers do not usually cooperate with tax audit personnel during the exercise. In the same view, Onuoha and Dada (2016) examined tax audit and investigation as imperatives

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for the achievement of an efficient tax administration in Nigeria. The study revealed that tax audit and investigation are inevitable to improve on the collection of tax revenues in Nigeria.

Jemaiyo and Mutai (2016) analyzed the determinants of tax compliance and their influence on the level of tax compliance in the real estate sector, Eldoret town-Kenya. Data collection was through questionnaire and analyzed with chi-square. This study found that tax compliance cost, tax knowledge, tax penalties and tax audit had significant effect on level of tax compliance. High tax compliance costs were a contributing factor that reduced tax compliance among real estate investors. It was thus recommended that tax compliance cost should be as minimal as possible to encourage payment of income tax. Gberegbe and Umoren (2017) investigated the relationship between the perception of tax fairness and personal income tax compliance in Rivers State. Out of 7865 registered SMEs taxpayers, 380 formed the sample for this study. They employed Spearman Correlation Coefficient and Multiple Regression Analysis as the estimation techniques. The results show that distributive fairness, procedural fairness, retributive fairness and the perception of tax fairness have positive significant influence on personal income tax compliance in Rivers State. Oladipupo, and Obazee, (2016) investigated the impacts of tax payers' knowledge and penalties on tax compliance amongst small and medium enterprises in Nigeria using a survey research design. The data obtained from questionnaire were analyzed with Ordinary Least Square regression method. The results showed that tax knowledge had a positive significant impact on tax compliance while tax penalty had insignificant positive impact on tax compliance.

Masud, Aliyu, and Gambo (2014) examined the effect of tax rate on tax compliance in Africa using cross-country data. The study used all the African countries as population, upon which sample were selected using multi-stage approach. The findings showed that there is significant negative correlation between tax rate and tax compliance and tax rate has a negative effect on tax compliance. Soyinka, Jinadu, and Sunday (2016) studied tax audit determinants and corporate tax compliance in Nigeria. The study adopted the use of descriptive statistics, correlation and least square regression methods to analyse the data. The findings revealed a significant impact of tax audit probability and frequency of tax audit on corporate tax compliance. However, there was no significant impact of tax penalties on corporate tax compliance.

RESEARCH METHOD

The population of the study consisted of staff of the Ekiti State Board of Internal Revenue and Federal Inland Revenue Service, Ekiti State. The specified staff population is shown in table 3.1.

Table 3.1: Population of the study

	Total
Ekiti State Board of Internal Revenue	30
Federal Inland Revenue Service	30
Grand Total	60

Source: Author's computation (2018)

Table 3.1 showcase the population of the study was 60 of both Ekiti State Board of Internal Revenue and Federal Inland Revenue Service, Ekiti State using random sampling technique.

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30 respondents were sampled from Ekiti State Board of Internal Revenue and 30 respondents were sampled from Federal Inland Revenue Service. The choice of this frame is informed by the fact that both Ekiti State Board of Internal Revenue Service and Federal Inland Revenue Service were charged with the responsibility of administering tax revenues both at the State and Federal levels.

The instrument to be used for the collection of data will be a self-constructed questionnaire which was ranked with yes/no for the dependent variable while the independent variables were ranked with five-point likert scale that is Strongly Agree (SA), Agree (A), Undecided (UD), Strongly Disagree (SD), and Disagree (D).

Model Specification

For the purpose of investigating the effects of tax audit on tax compliance, the model of Soyinka, Jinadu and Sunday (2016) was re-modified. The model of Soyinka, Jinadu and Sunday (2016) is specified as:

TAXCOMP= f (TAXPROB, TAXFREQ, TAXPEN)…………………………………….. 3.1

However, this study re-modified the equation 3.1 as;

TC = f (TP, TL, TACR) ……………………………………………………………. 3.2

Where:

TC = Tax Compliance

TP = Tax Procedure

TL = Tax Laws

TACR = Tax Accuracy and Current Returns

The econometric form of equation 3.2 is presented as:

$TC = b_0 + b_1\text{TP} + b_2\text{TL} + b_3\text{TACR} + \mu$ ……………………………………………… 3.3

Thus, b_0 represents the intercepts or constants; $b_1 - b_3$ indicates the shift parameters or the coefficients

Presentation of Data, Results and Discussion

Multinomial Logistic Regression

Table 4.1 Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	Df	Sig.
Intercept Only	38.021			
Final	20.441	17.580	9	.040

Source: Author's computation (2017)

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The multinomial logistic regression model fitting information presented in table 4.1 shows that the significance level is 0.040 which is lesser than 5% alpha level. This implies that the independent variables employed, jointly can influence the dependent variable.

Table 4.2 Pseudo R-Square

Cox and Snell	.254
Nagelkerke	.376
McFadden	.261

Source: Author's computation (2017)

Table 4.2 presents Pseudo R-square which gives the variations of the independent variables in terms of the dependent variable. The result of Nagelkerke R-square was selected and its value is 0.376 representing 37.6% which implies that 37.6% can be accounted for by the independent variables while the remaining percentage is explained by other factors.

Table 4.3 Likelihood Ratio Tests of Multinomial Regression

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	20.441[a]	.000	0	.
Tax accuracy and current returns on tax compliance	24.826	4.385	3	.223
Tax laws on tax compliance	32.250	11.809	3	.008
Tax procedure on tax compliance	23.775	3.334	3	.343

Source: Authors' computation (2017)

Dependent Variable: Tax audit has effect on tax compliance = 1 and if otherwise =0

Decision Rule

i. From table 4.3 of Likelihood Ratio Tests of Multinomial Regression, the significance value/p-value of the tax accuracy and current returns on tax compliance is 0.223 which means that tax accuracy and current returns has not been affecting tax compliance.

ii. The result also revealed that the p-value of tax laws effect on tax compliance is 0.008 implying that tax law has an effect on tax compliance.

iii. Table 4.3 equally revealed that tax procedure effect on tax compliance p-value is 0.343 which means that tax procedure has no effect on tax compliance during the survey. However, the findings of this study are similar to the work of Modugu and Anyaduba (2014).

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CONCLUSION AND RECOMMENDATIONS

An attempt has been made in this study to present a comprehensive analysis on tax audit, particularly with respect to tax compliance. Following an extensive review of relevant literature relating to tax audits and tax compliance, and also on the basis of the results derived from the study, it was concluded that tax accuracy and current returns has no significant affect tax compliance. Also, the study concluded that tax law has effect on tax compliance. Furthermore, it was established that tax procedure has no effect on tax compliance. Meanwhile, the study broadly decided that tax audits are yet to make any substantial effect on tax compliance culture in Ekiti State, Nigeria. It therefore recommended that the relevant tax authority at all levels should improve the standard of tax audit employed for effectiveness and efficiency and equally, relevant tax authority should provide a policy that would allow the tax payers to cooperate during the period of tax audit.

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