WEBOMETRIC INDICES OF TAX AUDIT AND TAX REVENUE GENERATION RESEARCH IN NIGERIA

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Abstract

Despite numerous webometric indices of tax audit that were intended to improve the economic and social situation by supporting infrastructure and increasing the quality of public goods provided by the government, the situation in the country still remains fragile, and the country remains among the poor in the world. The core objective of this investigation is to empirically analyze the effect of webometric indices of tax audit and tax revenue generation in Nigeria. Primary and time series data of different variables of tax audit and tax revenue were collected from Federal Inland Review Services, auditor general office, Chartered Institute of Taxation of Nigeria and questionnaire. The data collected were analyzed using ordinary least square linear regression analyses with the aid of SPSS version 22. The results indicate that tax audit has a significant positive effect on tax revenue generation, explaining about 48.3% and 43.9% of the total variation in tax revenue generation of Nigeria. Back duty tax audit were found to have significant effect on personal income tax and company income tax. We therefore conclude that tax audit has the potency to make significant contribution to tax revenue generation and recommends that in order to increase government tax revenue; there should be regular tax audit practice by tax authorities in Nigeria. Tax administrators should not concentrate only on desk tax audit but also on field tax audit and back duty tax audit so as to be able to block all leakages and increase the level of tax payers' compliance. Cost benefit analysis between the cost of carrying out tax audit and the expected tax revenue should be conducted by the tax authorities before embarking on tax audit. This is to ensure that tax collections are more than cost of enhancing compliance. Qualified and competent manpower should be used by the tax authorities to carry out tax audits so as to minimize the tax audit costs. Proper orientation and public enlightenment campaign should be conducted among the tax payers to sensitize them and seek for their co-operation in tax audit exercise.

Keywords: Tax Audit, Back Duty Audit, Personal Income Tax, Company Income Tax and Government.

Introduction

A tax is a compulsory levy by government through its agencies on the income, consumption and capital of its subjects. These levies are made on personal income such as salaries, business profit, interest, dividend, discount or royalties to obtain revenue. It is levied against company profit, petroleum profit, capital gains and capital transfer (Bello, 2001). Therefore, taxation is a compulsory payment or transfer of resources from private to public sector levied on the basis of the determined criterion and without reference to specific benefits received in order to accomplish some of the nation's economic and social objectives. Taxation is primarily aimed at generating revenue for government in order to cater for its expenditure (Al Zakari, 1995).

The issue of taxation is as old as the world itself. Tax audit has been known since the biblical era. Yet, many are never comfortable discussing taxation, worse still tax audit practice. To deter evasion and maximize compliance with tax laws is a key in government's revenue policy. One of the aims of tax audit is to drive the taxpayer to comply with the outcome of tax audit and also to make him become compliant with the provisions of tax laws in future. That is why the terms have become synonymous with the efforts of government to generate revenue.

Auditing generally is an independent examination and expression of opinion on the financial statement of an enterprise by an appointed auditor in accordance with his terms of engagement and compliance with statutory regulation and professional requirements (Daniel, 1999). It is important to note that any individual or organization that falls within the scope of the above income groups, is obliged to pay tax, this can be voluntarily or otherwise. It is within this process that the issues of returns and assessment arose. Every individual or organization liable to income tax for a year of assessment is required to submit returns of his income and other relevant matters to the tax authority having power to assess him to tax. And this is subject to satisfaction of the returns by the tax authority (Oyebanji, 2006).

It is no records that no taxpayer is ready to open his/her books for examination by tax officers. Not minding the concept of quid pro quo (something for something), it is still the duty of taxpayers to declare their tax affairs in line with the available tax laws. Audit is said to be an evaluation of a person, organization, system, process, enterprise, project or product. Audits are performed to ascertain the validity and reliability of information; also to provide an assessment of a system's internal control. The goal of an audit is to express an opinion of the person/organization/system etc. in question, under evaluation based on work done on a test basis (Zysman, 2004). Audit is a systematic approach that follows a structured, documented plan called audit plan. In this, accounting records are examined by the auditors who use a variety of generally accepted techniques. Financial audits are thorough review of a company's financial records conducted by external auditors to verify that their financial statements are accurate and reliable. Audits are also customarily conducted to assess the effectiveness of internal controls or compliance with regulations (Bradford, 2013).

Slemrod (2000) is of the view that tax audit is one of the most effective policies to prevent tax evasion behaviour. The level of tax audit can be determined by two elements: one is how many tax payers are selected for audit and the other is how much intensive the audit is. The first element is easily measured by the number of audited tax payers divided by the total number of tax payers. However, the latter is so difficult to measure due to non-published information about tax audit progress. It is commonly measured by the first element to indicate the level of tax audit for practical comparison. In the word of Okonkwo (2014), tax audit is 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 generally relevant accounting principles and standards. While tax investigation and tax audit are often used interchangeably, however, in practice, tax investigation is a more detailed and painstaking examination of the taxpayer’s records. It is usually triggered by suspicion of fraud, evasion and related offences (Okonkwo, 2014).

A very significant challenge around tax audits by relevant tax authority has been how to ensure timely completion. In fact, very few tax audit exercises in Nigeria commence and get concluded within twelve months as most span for years before closure. No doubt, tax authority has a duty to be thorough in its review but this duty need to be balanced with the duty to ensure timely completion of audits. Protracted tax audit exercise is not in the interest of the Federation nor in the interest of the taxpayer. They are not in the interest of the Federation because of time value of money in respect of potential additional tax liability locked up in unresolved tax audit portfolios. They are not in the interest of the taxpayers who need to commit men and materials towards closure of the tax audits as well as incur professional fees retaining tax advisors during the period.

One major factor contributing to the delay in timely completion of tax audits is the adoption of a vouching approach in the examination of a company's accounting and financial records with the aim of ascertaining the level of compliance with the provisions of the various tax laws.

Beck (1998) claimed that the tax audit schemes found in the taxation literature are classified as random tax audit scheme, cut-off tax audit scheme and conditional tax audit scheme. The random tax audit scheme simply provides each self report of income an equal chance of being chosen for verification by an audit. No information is used to select the report to be audited. Under the cut-off audit scheme, audit resources are employed to verify reports of the tax payers reporting the lowest income levels. In contrast, the conditional audit scheme requires in addition to the reported income, sources of information representing a noisy signal of tax payers’ thorough income earning potentials. The cut-off and conditional audit schemes incorporated the preliminary information transmitted when tax payers self reports income and the corresponding tax liability.

Tax audits remain the primary tool through which the tax and accounting records of taxpayers are reviewed by Federal and State tax authorities to ensure that the correct tax returns have been filed and correct taxes paid in the relevant year of assessment. In the last couple of years tax audit has been a critical issue often discussed in Nigeria. (Bevon, 2002; Benk; Cakmak & Budak, 2011). The majority, however, find either no effect or, at best, conflicting empirical results. Thus, an objective conclusion from the empirical and theoretical results of the vast research effort undertaken till today suggests there is no strong, robust and uniform support for the theoretical argument about tax audit and tax revenue generations research (beck, 1998; Frey, 2003; Matarindwa & Ratikanga, 2014). Besides, it revealing that the nature of the influence of tax audit on the variables of tax revenue generation research remains empirical concern.

Most of the empirical analyses of the effect of tax audit and tax revenue generation research have been predicted on data from developed countries, notably “USA, China, Japan, New Zealand, South African and Thailand.” However, studies espousing the effect of tax audit on tax revenue generation research in less developing energizing economies have been rather sparse. Notable exceptions include Bello (2001), Beren (2002), Ajzen (2002), Frey (2003), Alabede, Zainal-Affirm & Idres (2011), Bradford (2013), Bitras (2014), Okonkwo (2014), Oyedokum (2015), Onoja & Iwarere (2015). Ironkwe & Nwaiwu (2014), Nwaiwu (2017). Despite the geo-political and economic significance of Nigeria as an emerging nation and, in particular as the largest oil country in Africa, second largest economy in the sub-Saharan Africa and the third largest oil country in the world, the scant empirical analysis of the phenomenon of interest begs the questions (Alabede, Zainal, Affirm & Idris, 2011; Abdulrazaq, 2013).

Although the core objective of this paper is to offer empirical evidence on the influence of variations in tax audit on tax revenue generation research in Nigeria, and not to derive a set of definitive policy implications, some general principles never the less emerge from, and control the contradictions arising from the mixed results in earlier studies (Jones., Manuelle & Rossi, 1993; Myles, 2000; Lee & Gordon, 2006; Barry & Jules, 2008; Arisoy & Unlaka plan, 2010; Arnold, 2011; Adedirano, Alade & Oshode, 2015).

The rest of the paper offer the introduction proceeds as follow: Section two develops the theoretical framework, reviews the related empirical and theoretical literature of tax audit and tax revenue generation research, and also specifies the hypotheses of the study. Section three describes the research methodology. Section four discusses the empirical results and discussion, while section five presents conclusion and recommendations of the study.

Review of Related Literature and Hypotheses Development

Fiscal psychological theory, previously, most of the tax audit research focused mainly on their own theories (Mckerchar, 2001; Nwaiwu, 2016), except for a limited number of researchers who attempted to link these theories to get a better view of taxpayers compliance behaviour. The blend of both the economic and behavioral approaches now known as the fiscal psychological approach, suggested by a number of researchers such as Schmolders (1959), Appah (2010), George; Sorros; Karagiorgon & Diavastis (2015), has given us a clearer understanding of the major issues of tax audit compliance. The term "fiscal psychology' first introduced by Schmolders (1959:345), emphasize the lack of motivation for taxpayers to pay taxes because there is no apparent gain from the benefit of tax payment either in the form of monetary or public goods.

The fiscal psychological approach provides better insight into the way people behave in economic situations by exploring the effects of economic issues and government's actions on people's attitudes in an attempt to encourage positive behaviour in obeying tax rules. This approach stresses the importance of positive policies developed by governments to improve the corporation between taxpayers and government. One example is the use of reduced tax rates, as an incentive to induce taxpayers' positive behaviour during the process of tax compliance decisions making. In other words, in the fiscal psychological approach, tax enforcement is viewed as a behaviour crises, which can be fixed with taxpayers' cooperation with government and tax authority (Soyinka., Jinadal & Sunday, 2016).

In this approach, tax mentality, tax tension feeling and tax moral are the 3 elements that shape taxpayers' attitudes (Schmolders, 1970; Phil & Mustapha, 2011). The 1st element; tax mentality, describes a tax payer who is feeling indecisive as to whether or not to obey tax laws, this is highly influenced by the social environment and individual experience. The 2nd elements tax tension feeling derives mainly from an unequal tax burden distribution leading to the taxpayers' discontentment with the tax system. The last element, tax morale is defined as individual's internal motivation from tax audit beliefs or moral values to pay taxes, also termed as "intrinsic motivation". The improvement of taxpayer's positive attitude from these elements is expected to encourage the willingness to pay taxes (Matarindara & Rutikanga, 2014; George., Karagiorgou & Diavastis, 2015).

Based on a review of previous research on tax morale, Pope & Mohdali (2010) argue that 'tax morale is mostly influenced by elements in the external environment namely, external environment, individual attitudes and morale. Tax morale, is possibly best described by the "commitment to the responsibilities of citizenship and respect for the laws" as pointed out by Gractz & Wilde (1985:385). Likewise, Kirchler & Wahl (2010) state that "voluntary tax compliance is originated from spontaneous willingness to cooperate, emanating from taxpayers' morale obligation to contribute to the public welfare" it seems that the term "tax morale" and "voluntary tax compliance" can be used interchangeably.

According to the fiscal psychological approach, an individual's intrinsic motivations and positive experiences with the external environments are the two main factors that drive taxpayers to pay their taxes voluntarily. Riahi-Belkaomi (2004) suggests that government tax revenue should also be explored in future research in order to provide a sound understanding of tax compliance issues especially by policy makers. The effect of deterrence as imposed by the authorities on intrinsic motivations is analyzed at the constitutional level, whether a citizen is given the right to be involved in the government's political process (Fry, 2003). Hence, the key ingredients for maximum voluntary compliance as argued by Ariff & Pope (2002) are acceptance by taxpayers and respect for the tax system (Nwiwu, 2014).

Tax Audit

Taxes are considered as a source of revenue for economic growth and development. Tax revenues and other revenues are central to the current economic development agenda. They provide a stable flow of revenue to finance development priorities, such as strengthening physical infrastructure, and are interwoven with numerous other policy areas, from good governance and formalizing the economy, to spurring growth (Pfister, 2009).

The Nigeria tax system has failed on the area of it 'administration. Personal and company income tax administration in Nigeria today do not measure to the appropriate standard. The self-employed persons earn more than those in paid employment. The self-employed earn four times than those in paid employment but the bulk of personal income yield comes from those paid employment whereas those who are self-employed earn most of the money. As a result of inadequacy in monitoring taxes paid, lots of those who are self-employed evade tax. These thus call for the need for a good and standard tax audit. Tax audit can be defined as "an examination of an individual or organisation's tax report by the relevant tax authorities in order to ascertain compliance with applicable tax laws and regulations of state". He further said that tax audit is a process where the internal revenue service tries to confirm the numbers that you have put on your tax return (Kircher 2008). In other words, tax audit is an inspection of a taxpayer's business records and financial affairs to ensure that the amount of tax reported and paid are in accordance with tax laws and regulations. Tax audit in Nigeria are terms which embrace a variety of sectors. It simply means the advanced part of auditing practice that involves examination of books of account in other to check if the assessable profit showed by the tax payer is correct. Tax audit just like financial audit involves the gathering of information and processing it for determining the level of compliance of an organization with tax laws of the territory. For a successful audit, it is necessary that the auditor organizes his work in such a way that the assignment is accomplished completely and efficiently.

More importantly however, a professional tax auditor or investigator must possess sound accounting and taxation knowledge, he must be sharp in interpreting the tax laws, tactical and must display high intelligence in applying tax laws, he must have sound knowledge of investigation techniques. Apart from technical skills, he must be alert and open minded with good communication Skills. These are necessary personal prerequisite for any tax auditor or investigator to be successful for tax audit assignments. A tax as we already know is a charge imposed by governmental authority upon property, individual or organisation to raise money for public purpose. An audit on the other hand can be seen as the examination of the records underlying a financial statement as will enable the auditors to report authoritatively, whether in his opinion, the statement gives a true and fair view (Izedonmi, 2000; Okoye,2006).

Adesina (2005) defined an audit as the examination of accounting documents and of supporting evidence for the purpose of reaching an opinion concerning their propriety. It is an examination intended to serve as a basis for an expression of opinion regarding the fairness, consistency, and conformity with accepted accounting principles of statement prepared by a corporation or other entity for submission to the public or to other interested parties. Tax audit is therefore a means of ensuring compliance with the tax laws. The primary purpose of tax audit is to maintain the confidence in the integrity of the self-assessment system. It helps to improve voluntary compliance by detecting and bring to book those who do not pay the correct amount of tax.

One of the cardinal principles governing the tax audit program is that each line of grade or business should receive at least a nominal amount of audit attention. The selection of times for audit is management decision and criteria used vary from time to time. (Ola: 1999).

The idea of tax audit became known through Lagos state where monitoring agents were appointed to carry out tax audit on government behalf. These monitoring agents mostly Chartered Accountants who are performing the function of carrying out tax audit of PAYE. The function of these monitoring agents however was taken over by tax consultant in 1996 and their mode of operations different from that of monitoring agents. It has become fashionable for state government to carry out tax audit exercise in order to fulfill all righteousness that the actual tax due to the government have been deducted and remitted to the government account (Ojo, 1998).
This exercise has however received some credits which are:

1. Making the taxpayer conversant with the applicable tax laws
2. The rate at which the taxpayers comply with tax laws has been increased.
3. It has added depth to the Nigeria tax practice.
4. The revenue of the government was increased.

Erard (1994) mentioned some reasons for tax audit which include, among others: To assist the government in collecting appropriate tax revenue necessary for budget, maintaining economic and financial order and stability, to ensure that satisfactory returns are submitted by the tax payers, to minimise the degree of tax avoidance and tax evasion, to ensure strict compliance with tax laws by tax payers, to improve the degree of voluntary compliance by tax payers and to ensure that the amount due is collected and remitted to government. It will enable the government to control and ensure the taxpayers' compliance with tax laws thus this will increase tax revenue collected from taxpayers. One of the functions of auditing is to detect errors and frauds, RRA's tax audit and investigation aim at stopping the loss which comes from tax evasion, fraud and corruption. If there is a fraudulent event by taxpayers, auditing practices will enable the RRA to find out the taxpayers who had avoided paying tax and paying the tax due with penalties and fines. The purpose of auditing is to discover, check, verify and control some or other aspects in an organization. It can therefore be said that one of the main characteristics of an audit is that it is diagnostic.

James (1993) identified a priority list of tax audit mission, this includes: to establish a viable and effective tax administration in order to deal with constantly changing economy, to put strategies in place in order to resolve tax dispute between the tax authority and the liable tax payers, to maintain a strong mechanism to deal with tax avoidance techniques which are available to various organisations, but are susceptible to tax abuse, to bring defaulting tax payers to the net of tax authorities, to prove the completeness, accuracy and timely filing of tax returns submitted by the tax payers.

Today's tax agencies typically lose some percentage of total revenues due to tax evasion and other types of noncompliance known as the "tax gap" Brown et al , (2003). The primary goal of a revenue body's compliance activity is to improve overall compliance with their tax laws, and in the process instill confidence in the community that the tax system and its administration are fair. Instances of failure to comply with the law are inevitable whether due to taxpayers' ignorance, carelessness, recklessness and deliberate evasion, or weaknesses in administration. To the extent that such failures occur, governments, and in turn the communities they represent, are denied the tax revenues they need to provide services to citizens Forum on tax administration's compliance, (2006). At a time when tax evasion techniques have grown more sophisticated, tax agencies have simultaneously been hit with a cascade of budgetary and staffing restrictions, continually changing tax statutes and more rigorous requirements for privacy. As a result of these pressures, many tax agencies continue to rely on audits of taxpayers' business records and financial affairs to ensure taxpayers have computed their tax payable in accordance with current tax laws and regulations and this implies the tax revenues growth otherwise, tax agencies can lose significant revenues opportunities.

Finally, when tax audit is well conducted, taxpayers understand that their returns will be quickly and scientifically analysed, voluntary compliance rates may rise which could help tax agencies avoid costs and further improve revenue collections, Brown et al, (2003) claim that tax audit and compliance system, is a comprehensive, integrated solution designed to improve tax auditor productivity and increase tax revenues. It is an additional audit to the statutory audit and is carried out by tax officials from a relevant tax authority. This is not the same as the statutory audit with respect to the requirement of the Company and Allied Matter Act (CAMA) 1990 (as amended). It should also be noted that the criteria for selecting cases for tax audit include persistent loses, nil tax returns, refund cases, non-submission of returns, low tax yield, suspicion of tax avoidance, fraud or evasion, transfer mispricing, thin capitalization and most often when the taxpayers request for tax clearance certificate among others (Bitrus, 2014, Okonkwo 2014, Oyedokun 2014).

Back Duty Audit:

This is the audit that is conducted to uncover an amount of tax that should have been paid in previous years but was not assessed because the taxpayer failed to disclose full income details to tax authorities. A back duty case may arise when a source of income has been omitted totally from a tax return or when the level of business profits has been understated. According to Abdulrazaq (2013), "back duty'' is a colloquial phrase that is not known to statue. It covers the process of tax enquiries and statutory penalties. The practice is to require the taxpayer to furnish the tax inspectors with all the necessary information and the explanations as may be required by them. It is important that a taxpayer cooperate with the tax auditors as refusal may sometimes be interpreted as working against the law.

The back duty assessment may be carried out for at most six years before the year when the tax audit is carried out. Experience has shown in practice that at the completion of the audit, no preliminary reconciliation is held with the taxpayers before they leave the premises. This often cause a lot of problems when the report of the tax audit is subsequently released as they are sometimes full of errors, mistakes, double counting, etc.

According to Onoja and Iwarere (2015), back duty audit may be instituted when the following occurs:

1. Failure to disclose or include in full any income or earning in the made available to the tax office.
2. Doubtful claim of capital allowance in respect of current or previous year.
3. Reduction in the profit in the returns files in tax office
4. Where the tax charged or assessed is less than what it ought to be.

The institution of back duty audit on a taxpayer can either be a routine or as a result of the above reasons. It is an exercise by the relevant tax authority to ensure that the amount due to the government is duly collected (Ariwodola, 2000).

Okonkwo (2014) identified the followings as some of the challenges facing tax audit exercise among others viz:

i. Poor/lack of record keeping by Taxpayers;
ii. Lack of co-operation by taxpayers and Agents;
iii. Partial submission of books and records for inspection;
iv. Deliberate introduction of delays;
v. Aggression;
vi. Reconciliation meetings not taken seriously;
vii. Lack of audit skills by some Tax Auditors leading to prolonged reconciliation meetings;
viii. Influence peddling; and
ix. Inducement of tax auditors.

Empirical studies:
The empirical and theoretical interest here is to provide an academic synopsis of tax audit and tax revenue generation research in Africa. Although the historicity of the two constructs is not new, however, its popularity and growth is a recent trend. As noted above, the context of tax audit and tax revenue generation is found on understanding the identification of gap that

exists among authors. As an emerging field in develop and less developing countries, the literature is just burgeoning.

Table 1 is a webometric indices of extant tax audit and tax revenue generation studies across Africa. The focus of most of the studies is on how tax audit can be used to mitigate fraud, with a few exceptions, notably Azubike (2009), Ironkwe & Nwaiwu (2017). Most of the studies are on the use of tax audit for tax revenue generation. There has been little emphasis on how systematic tax audit and tax revenue generation could be a useful tool in engendering accountability, transparency, and good governance in Nigeria and other African countries (Borry & Jales, 2008; Arisoy & Unlakaplan, 2010; Arnold, 2011).

Table 1: Webometric indices of tax audit and tax revenue generation research in Nigeria.

Authors & Years of publication	**Title of Article**	**Journal, Page, Volume And Number**
Abwdlrazaq, M.T. 1992	The legal nature of tax evasion and avoidance.	Nigerian financial review, 4(3),65-74.
Adediran, S.A., Alade, S.V & Oshode, A.A. (2013)	The impact of tax audit and investigation in revenue generation in Nigeria.	European journal of business in management, 15(6),21-32
Akindele, S.T & Obigan, A.S. (2002)	Success of fiscal revenue in Nigeria.	ICAN journal of accounting and finance, 5(32),34-45
Christensen, J. & Kapor, S. (2004)	Tax avoidance, tax competition and globalization: making tax justice a focus for global activism.	Accounting business and public interest, 3(2),51-62
Christianson, V. (1980)	Two comments on tax evasion.	Journal of pubic economics, 13(3), 389-393
Cohn, G. (1998)	The Jewish view on paying taxes.	Journal of accounting, ethics and public, 1(2),109-120
Due, S.B. (2008)	Improving tax audit in investigation in Nigeria.	The Nigerian Accountant. 12(9),16-18
Eckholm, E. (2007)	Chinese hush upkilling of village tax rebels.	international Herald Tribune 3(2), 21-22
Ekpo, A. & Ndehhio, J. (2008)	Multiplicity of taxes and cost of doing business.	ICAN Student journal, 12(4), 20-21
Englebrecht, T.D., Falomi, B, Lee, C. & Manelli, J.J. (1998)	The impact on tax compliance behaviour: A multidimensional business.	Journal of accounting, ethics and public policy 1(4),738-768
Forhakun, S.O. (1976)	An assessment of efforts against tax avoidance and	Nigerian law journal, 10(2),13-34

	economics in Nigeria: The legal view point.	
Friedland, N., Maital, S., Rutenberg, S. (1978)	A simulation study of income tax evasion.	Journal of public economics, 10(3),107-116
Green, S.P. 92004)	"Cheating"	Law and philosophy, 23(3),137-185
Killion, S. (2006)	Where's the horn in tax competition? Lessons from US multinational companies in Ireland.	Critical perspectives on accounting
King, S. & Sheffrin, S.M. (2002)	Tax evasion and equity theory: An investigation approach.	International tax and public finance, 9(2), 505-521
Kolm, S.C. 91973)	A note on optimum tax evasion	Journal of public economics, 2(1),265-270
Leika, B. H. (1998)	Rousseau and the legitimacy of tax evasion	Journal of accounting ethics and public policy.
Ogundele, E.A. (1999)	Tax system and reforms	Bulletin for international financial development, 53(1),23-50.
Ajzen, I. (2002)	Perceived behavioural control, self efficiency, focus of control, and the theory of planned.	Journal of applied social psychology, 32(4),605-683
Armitaye, C.J., & Conner, M. (2001)	Efficacy of the theory of planned behaviour: A metal analytical review.	British Journal of social psychology, 40(2), 471-499

Specification of Hypotheses

The justification of this framework is based on the assumption that a positive relationship exists between tax audit and tax revenue generation research. This implies that increase in effect tax audit practice brings about increase in tax revenue generation research in Nigeria and vice-versa. With due consideration to the objectives of the study, the filling two hypotheses stated in null form are raised.

H_{01}: There is no significant relationship between back duty tax audit and personal income tax revenue in Nigeria.

H_{02}: There is no significant relationship between Back duty tax audit and company income tax revenue in Nigeria.

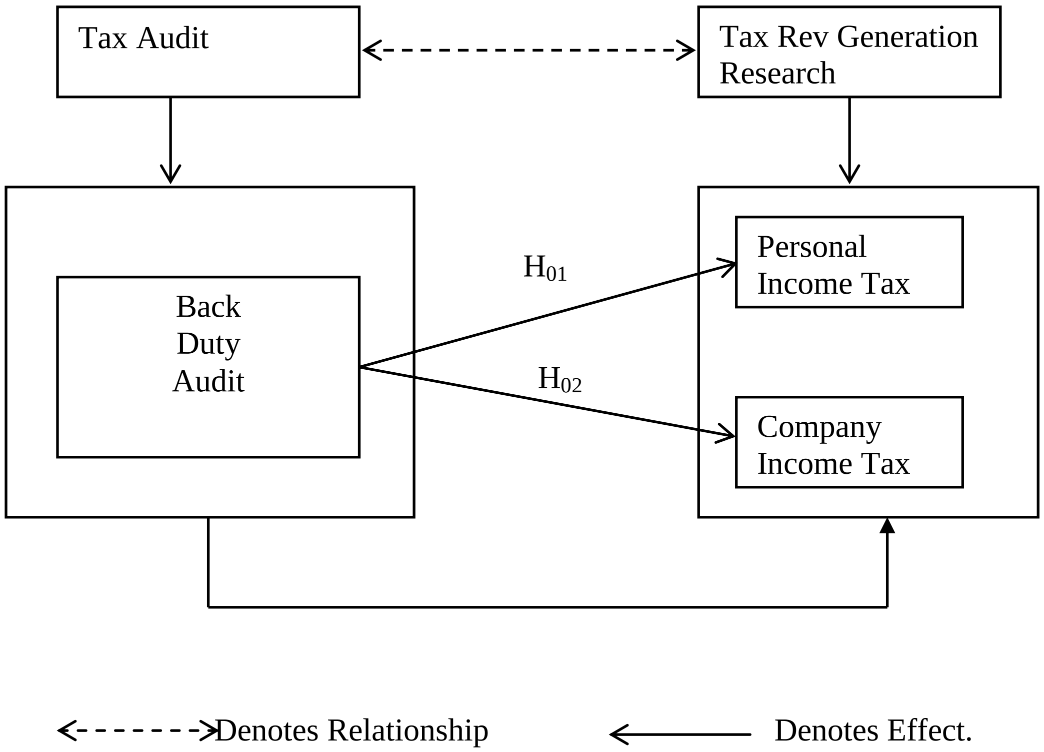

Figure 1: Operational framework of tax audit and tax revenue generation research in Nigeria.

Analytical Framework and Methods

Descriptive survey and causal – comparative research designs were adopted for the study, which attempts to identify the cause – effect relationship between two or more variables. Both primary and secondary sources of data collection were adopted. The researcher – designed questionnaires that was validated by extents in accounting, finance and corporate reporting, and it reliability established using "Cronbach's Alpha" in a test-retest interval of two weeks was used. It gave a reliability coefficient of 0.92 which is considered to be high enough (Nwaiwu, 2017; Ironkwe & Nwaiwu, 2017).

The instrument was administered on a sample of 242 respondents drawn from among directors, auditors, accountants and regulators of federal Inland Revenue Service (FIRS). The area of study was limited to Port Harcourt and Lagos state. While the tax revenue collected by the FIRS for the period, 2000-2015. The linear regression analysis will be used in testing the individual hypothesis while the multiple regression analysis will be used in testing the holistic effect of the independent variables or the dependent variable with the aid of SPSS version 22.

Model Specification

The model specification is based on the theory that tax audit contributes to tax revenue generation of Nigeria (Gordon, 2009; Richardson, 2008). Specifically, the model from related empirical evidence used by Evans, Carlon & Massey (2005) was adopted but we made modifications. We generated three models to achieve the first hypothesis. Consequently, the model specification was formulated in the following functional forms:

PITit = ʃ(BDTA) i

CITit = ʃ(BDTA) ii

Where the operational definitions are

PIT_{it} = Personal Income Tax for the period of time

CIT_{it} = Company Income Tax for the period of time

Expanding the functional form into mathematical forms, our model is

$PIT_{it} = \beta_o + \beta_1 BDTA_{it}$ iii

$CIT_{it} = \beta_o + \beta_1 BDTA_{it}$ iv

These mathematical and functional forms does not have a random variable and since in statistical relationship we deal with random; that is variable and that have probability distribution, the above functional and mathematical are stated in equation that describes how the dependent variables are related to all the independent variables and an stochastic error term; stated as a multiple regression as follows:

$PIT_{it} = \beta_o + \beta_1 BDTAit + \mu_{it}$ v

$CIT_{it} = \beta_o + \beta_1 BDTA_{it} + \mu_{it}$ vi

Where β_o = Constant (parameter), β_1 are as partial regression coefficient.

μ_{it} = Error term.

Empirical results and discussion

This section focused on the empirical analysis of data. It involves the statistical presentation and analysis of all the data collected for the study using tables, frequencies, percentages, mean index, and other statistical tools deemed necessary and appropriate for the study.

Table 1: Contribution of Personal Income Tax to Total Tax Revenue in Nigeria

	N	Minimum	Maximum	Mean	Std Deviation
PIT	16	1.00	53.00	23.1875	20.84616
Valid N (listwise)	16				

The data presented in Table 1 above revealed that the average annual contribution of personal income tax is N23.19 billion. This represents about 0.94% of the average total tax revenue in Nigeria for the period under review. This implies that the contribution of personal income tax to total tax revenue in Nigeria is very low, that is below 1%.

Table 2: Contribution of Company Income Tax to Total Tax Revenue in Nigeria

	N	Minimum	Maximum	Mean	Std Deviation
CIT	16	53	1205.00	4.797E2	387.84868
Valid N (listwise)	16				

The data presented in Table 1 above revealed that the average annual contribution of company income tax is N479.8 billion. This represents about 19.5% of the average total tax revenue in Nigeria for the period under review. This implies that the contribution of company income tax to total tax revenue in Nigeria is low.

4.3 Tax Audit in Nigeria

This section is mainly concerned with examining the extent to which tax audit is being practice by tax authorities in Nigeria. This was achieved by analysing each of the components of tax audit–desk tax audit, field tax audit, and back duty tax audit one after the other. These were measured by responses obtained through the administration of questionnaire designed in five-point Likert scale on tax officials of the Federal Inland Revenue Service (FIRS) in Port Harcourt, Rivers State.

Back Duty Tax Audit:
To measure the extent to which tax authorities in Nigeria practice field tax audit, five (5) test items were raised in the questionnaire, which were rated by the respondents. The result obtained is presented in Table 5 below.

Table 5: Extent to which tax authorities in Nigeria practice desk tax audit

	N	Minimum	Maximum	Mean	Std Deviation
DETA Valid N (listwise)	5 5	1	5	2.3102	1.0061

As shown in Table 5 above, the mean score on the extent to which tax authorities in Nigeria practice back duty tax audit is 2.3102 which is below average of 3.0 on a five-point Likert scale. This implies that the practice of back duty tax audit by tax authorities in Nigeria is low.

Relationship between back duty tax audit and personal income tax
Hypothesis five states that there is no significant relationship between back duty tax audit and personal income tax revenue in Nigeria.
In testing this hypothesis, data generated on back duty tax audit for the period under review were regressed with data generated on personal income tax and the result obtained is presented in Table 6 below.

Table 6: Relationship between back duty tax audit and personal income tax in Nigeria

Variable	Beta	R Squared	T	Sig.
BDTA	0.501	0.483	2.718	0.046

The result presented in Table 6 revealed a correlation coefficient (R) of 0.501, which is positive and moderate. This suggests that there is a positive relationship between back duty tax audit and personal income tax in Nigeria. The coefficient of determination (R^2) of 0.483 suggests that about 48.3% of the variance in company income tax is associated with variations in field tax audit. In other words, about 41.7% variation in personal income tax is due to other variables other than the field tax audit. The p-value (0.046) and t-statistic (2.718) indicate a significant relationship. This implies that there is a significant relationship between back duty tax audit and personal income tax in Nigeria at the 5% level of statistical significance.

Relationship between back duty tax audit and company income tax in Nigeria

This null hypothesis states that there is no significant relationship between back duty tax audit and company income tax revenue in Nigeria.

In testing this hypothesis, data generated on back duty tax audit for the period under review were regressed with data generated on company income tax and the result obtained is presented in Table 7 below.

Table 7: Relationship between back duty tax audit and company income tax in Nigeria

Variable	Beta	R Squared	T	Sig.
BDTA	0.494	0.439	2.632	0.039

The result presented in Table 7 revealed a correlation coefficient (R) of 0.494, which is positive but low. This suggests that there is a positive relationship between back duty tax audit and company income tax in Nigeria. The coefficient of determination (R^2) of 0.439 suggests that about 43.9% of the variance in company income tax is associated with variations in back duty tax audit. In other words, about 56.1% variation in company income tax is due to other variables other than the back duty tax audit. The p-value (0.039) and t-statistic (2.632) indicate a significant relationship. This implies that there is a significant relationship between back duty tax audit and company income tax in Nigeria at the 5% level of statistical significance.

Discussion of Findings

In this section, an attempt was made to discuss in some details what the research findings entails. It was gathered in this study that tax audit (desk tax audit, field tax audit and back duty tax audit) has a significant relationship with government tax revenue. This agrees with prior studies such as Olusola (1998), Mutarindwa and Rutikanga (2014), Yongzhi (2005), Frank (2010), Samuel and Tyokoso (2014), and Stanley (2014).

Olusola (1998) claimed that the benefit of tax audit practice is to generate revenue for the federal, state and local governments through different basis which are company income tax, personal income tax, petroleum profit tax, education tax, and value added tax (VAT).It is expedient to say that if professional examiners are not in place as a control over the taxpayer; the government will not actualize it aims and objectives. The taxpayer is a dodger when it comes to the issues of tax payment. He therefore needs to be motivated seductively or by force into paying what is expected from him. The taxpayer is always unwilling to pay his tax liability. Tax audit helps to achieve this purpose. More so Mutarindwa & Rutikanga (2014) revealed that the use of tax audit has helped in the generation of revenue to the government.

A study conducted in Nigeria by Samuel and Tyokoso (2014) on an empirical investigation of tax audit and revenue generation in Nigeria; found that it has a significant effect on revenue generation in Nigeria. Similarly, Stanley (2014) conducted a study titled effective tax administration and institutionalization of accounting systems in small and medium scale enterprises; evidence from Nigeria". One of the variables he used for operationalizing tax administration is tax audit. He used the econometric e-view to analyse the data obtained and he found that lack of effective tax audit undermines the collection of profit tax from the operators of those sector.

Frank (2010) concludes that the designed tax authorities audit policy can have important effects on production decision by firms. The nature of such effects depends on whether firms compete or collude. Accordingly, an appropriate designed audit policy may not only achieve greater compliance and higher net revenue for given output and resources spend on audit but may also have other effects that would be normally considered desirable in a wider economic context. By a smart design of audit policy, the authorities can create information externalities that partially offset the informational advantages of industry insider. Since decision in the product market is in the light of the eventual outcome of net after tax expected profits, the audit policy can create a linkage to output decisions. Specifically, it may be possible to nudge firms in the direction of greater efficiency.

Yongzhi (2005) found a positive relationship between the audit and the voluntary competence. The finding suggests that the audit productivity may be under estimated in many studies in the literature. It reminds us that when considering the productivity of the audit work. Besides the direct audit collections, we should also take the audit impact on the voluntary compliance into consideration. For this reason, the finding may provide tax professionals and tax authorities with incentives to strengthen the audit power and to better structure their audit organization to generate more revenue for the state.

Concluding Remark and Recommendations

Ineffective tax administration by tax authorities in Nigeria is a core factor responsible for the low level of government tax revenue. The Nigeria tax system has failed on the area of its administration. Personal and company income tax administration in Nigeria today do not measure to the appropriate standard. The self-employed persons earn more than those in paid employment. The self-employed earn four times than those in paid employment but the bulk of personal income yield comes from those paid employment whereas those who are self-employed earn most of the money. As a result of inadequacy in monitoring taxes paid, lots of those who are self-employed evade tax. But tax audit provides a window for increasing government tax revenue.

It is no records that no taxpayer is ready to open his/her books for examination by tax officers. Not minding the concept of quid pro quo (something for something), it is still the duty of taxpayers to declare their tax affairs in line with the available tax laws. Audit is said to be an evaluation of a person, organization, system, process, enterprise, project or product. Audits are performed to ascertain the validity and reliability of information; also to provide an assessment of a system's internal control. Tax audit is a systematic approach that follows a structured, documented plan called audit plan. In this case, tax records are examined by the auditors who use a variety of generally accepted techniques. Tax audit is one of the most effective policies to prevent tax evasion behaviour. The level of tax audit can be determined by two elements: one is how many tax payers are selected for audit and the other is how much intensive the audit is.

This study however demonstrated that the practice of tax audit in Nigeria is low and this accounts for the poor contribution of personal income tax and company income tax in Nigeria. We have established that if tax audit practice in Nigeria is effective, tax revenue in the form of personal income tax and company income tax would contribute meaningfully to government revenue. A very significant challenge around tax audits by relevant tax authority has been how to ensure timely completion. In fact, very few tax audit exercises in Nigeria commence and get concluded within twelve months as most span for years before closure. No doubt, tax authority has a duty to be thorough in its review but this duty need to be balanced with the duty to ensure timely completion of audits. Protracted tax audit exercise is not in the interest of the country or in the interest of the taxpayer.

In all, effective tax audit practice by tax authorities in Nigeria could serve as a veritable instrument for increasing government revenue, particularly in present day economy where volume of oil, which is the main stay of the Nigerian economy is no longer predictable.

Based on the findings of this study and the conclusion drawn thereof, we specifically made the following recommendations.

(i) In order to increase government tax revenue, there should be regular tax audit practice by tax authorities in Nigeria.

(ii) Tax administrators should not concentrate only on desk tax audit but also on field tax audit and back duty tax audit so as to be able to block all leakages and increase the level of tax payers' compliance.

(iii) Cost benefit analysis between the cost of carrying out tax audit and the expected tax revenue should be conducted by the tax authorities before embarking on tax audit. This is to ensure that tax collections are more than cost of enhancing compliance.

(iv) Qualified and competent manpower should be used by the tax authorities to carry out tax audits so as to minimize the tax audit costs.

(v) Proper orientation and public enlightenment campaign should be conducted among the tax payers to sensitize them and seek for their co-operation in tax audit exercise.

Limitation and Suggestions for Further Studies

Although this study has contributed to the frontier of knowledge, yet much needs to be done in future studies. First, this study on tax audit was operationalized as desk tax audit, field tax audit, and back duty tax audit. Bringing into focus other tax audit variables would further enrich our understanding of the relationship between tax audit and government tax revenue in Nigeria.

More so, since our present study focused on Federal Inland Revenue Service (FIRS), we suggest that future research should investigate this same relationship at the State level to determine if a significant difference would exist.

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