

Implications of Tax Audit and Investigation on Taxpayers' Compliance in Nigeria

Samuel Adebayo Olaoye^a and Tajudeen Abimbola Busari^b, Department of Accounting, Babcock University, Ilishan, Ogun state, Nigeria. Email: olaoyes@babcock.edu.ng^a and tajubusari@yahoo.com^b

The case of tax compliance globally is complex and largely depends on the attitudinal dispositions and taxpayers' perception of optimal tax revenue utilisation by the governments. Previous studies had argued that taxpayers are willing to obey tax laws naturally without being audited or the threat of tax investigation; rather the presence of tax justice, optimal utilisation of tax revenue and transparency is enough to motivate compliance. Consequently, this study investigated the effects of tax audit and investigation on taxpayers' compliance in Nigeria. The study employed cross-sectional survey research design, using a self-structured questionnaire administered to purposively selected senior members of Federal Inland Revenue Services (IFRS), a body responsible for tax collection and administration in Nigeria. Descriptive and inferential statistics were used. The descriptive result showed that regular tax audits influence tax compliance {Average Score = 4.05; SD = 0.93} with 76.12% percentage of total Agree; the responses relatively vary as suggested by the computed standard deviation. Inferential regressions analysis carried out which revealed that a tax audit and investigation had a positive statistical significant effect on tax compliance, $AdjR^2 = 0.111$; $F\text{-Statistics}_{(3, 352)} = 15.838$; $P\text{-value} = 0.000$. The study recommended that the level of tax compliance in Nigeria could drastically improve when the taxpayers' perception of corruption and insincerity of government is proved otherwise by the governments' clear demonstration of honesty, transparency and optimal tax utilisation.

Key words: *Tax audit, Investigation, Compliance, Tax revenue, Taxpayers.*

1.1 Introduction

The case of tax compliance is a complex issue that had generated lots of debates and prior studies have shown that there is a high level of disincentives making tax compliance unattractive (Anna, Koch & Weyzis, 2020; Chappelow, 2019; Olaoye & Agugum, 2018).

Globally, taxpayers are motivated to pay tax without being policed if there is convincing evidence of tax justice and optimal tax revenue utilisation by the government (Nurebo, Lekaw & Mariam, 2019). All over the world, the government of every nation desires tax compliance, because low tax compliance limits the capacity to raise enough tax revenue for its expenditure; as a result, every machinery is put in place to ensure tax compliance. Unfortunately, in most cases, the government has to resort to use of semi-military operations to compel its citizens to tax compliance. Evidences abound that there is a high correlation between tax compliance and good corporate governance; people who pay taxes tends to ask questions and demand accountability, tax justice and optimal tax utilisation of tax revenue from their governments (Cai, Lee, Xu & Zeng, 2019; Kovermann & Velte, 2019). This is the perception and feeling that since the citizens, both corporate tax payers and private taxpayers, have contributed to government funding, have a stake in the way the tax revenue is used and how they are being go Tax compliance from the global perspective had never been without full of challenges from both the taxpayer and the tax administrators. Tax payment has never been a voluntary payment or a donation, but an enforced contribution and a pecuniary burden laid upon individual, corporate organisations, persons or property to support the government execute its expenditure (Jemaiyo, & Mutai, 2016). There is no doubt that the tax compliance rate will be quite low if there is no efforts to checkmate noncompliance. In Italy, there is evidence that there is high level of tax circumventions to such an extent that social security contribution estimated to 110 billion euros of about 7% of the Italian gross domestic product, were evaded yearly between 2015-2017 (D'Agosto, Marco, Stefano, Filippo & D'Arcangelo, 2017). The study maintained that there exists studies and reports showing that the level of tax laws compliance in Italy are low compared to European standards; as a result, there had been a tightening and stringent fiscal constraints and combating tax evasion, and stimulating tax compliance has become a priority for economic policy (Santoro, 2016). According to the Organisation for Economic Co-operation and Development (OECD, 2017), a tax audit is an examination of whether taxpayers have correctly assessed and reported their tax liabilities and fulfilled other tax obligations. (Anna *et al.*, 2020).

The problems of tax compliance that constitute the problem of this study include among others the following: There is lack of adequate tax education and tax compliance awareness in Nigeria Oyedele, Aribaba, Ahmodu, Yusuff and Alade (2019); lack of quality and in-depth tax audit and investigation activities, as the tax offenders do not see any big deal defaulting Olaoye and Ogundipe (2018); appropriate sanctions are not meted out to tax compliance offenders and tax compliance enforcement is weak in Nigeria Amah and Nwaiwu (2018); the Nigerian tax system is complex and there are a multiplicity of taxes, as the taxpayer gets confused on which one to comply with Olaoye and Aguguom (2018); High incidents of corruption and compromise among the tax administrators in Nigeria Okoloba, Awodun, Akintoye and Adebowale (2018); The tax administrators exhibit professional incompetence in tax administration and there is inadequate manpower and insufficient personnel to administer tax related functions in Nigeria (Oyedele *et al.*, 2019).

The objective of this study is to investigate the effect of the tax audit and investigation on tax compliance. The study carried out an analysis of data using regression analysis and the rest were structured in this manner: Section 2, the study presented extant literature from three viewpoints of conceptual, theoretical underpinning and empirical review and development of hypothesis were presented. Section 3, methodology. Section 4, the study considered the data analysis, results, interpretation and discussion of findings. Section 5 the conclusion, recommendations and contribution to knowledge was presented.

2.0 Extant Literature

2.1.1 Tax Audit and Investigation

The concept of tax audit and investigation in this study is to be reviewed from two perspectives. From the perspective of tax audit and that of tax investigation.

Tax Audit: This is the process of examining the accounts and records of a company in order to confirm that the information contained in the financial statements with respect to potential tax liability are correct (Cai, Lee & Zeng, 2019). The aim of tax audit exercise is to confirm the adequacy of tax paid by a company and to ascertain any under-payment. Clement, Stephen and Festus (2018) posited that effective tax audit has much effect on the total tax revenue accruable to the governments of the federal, states and local governments in Nigeria. According to Clemet *et al.* (2018), prior to the introduction of the self-assessment scheme in Nigeria, there was no specific provision in company income tax for a tax audit. Subsection 4 of section 43 was introduced to empower the relevant tax authority to carry out a tax audit. One of the effectiveness of a tax audit is that it encourages tax compliance and at the same time improves tax compliance (Nurebo, Lekaw, & Mariam, 2019). Zakir (2018) asserted that large corporate tax payers are inclined to tax compliance for fear of penalty as result of a tax audit in Bangladesh.

Tax Investigation: Furthermore, tax investigation as opined by Nurebo, Lekaw and Mariam (2019), is the enquiry carried out on a company in order to ascertain any unpaid taxes by the taxpayer, resulting from any action of the taxpayer that led to the under-assessment of the taxpayer (Antonia & Cristina, 2018). The essence is to recover back taxes from the taxpayer. An effective tax investigation requires the auditor's unbiased assessments and judgement based on the reliable audited financial statement prepared by the corporate body being audited. Therefore, a functional and comprehensive investigation procedure should produce a quality report that is valuable and timely for different stakeholders (International Auditing and Assurance Standards Board-IAASB, 2013).

Prior studies Safa, Nadia and Faten (2017); Antonia and Christina (2018) had argued that the essence of instituting a tax investigation is where there has been alleged fraud, willful default or neglect by the taxpayer, where there are reported failures to fill tax returns by a potential

tax payer, a situation where there is alleged action of reduction in income not in line with the nature of trade carried out by the taxpayer., where there are reported errors or omissions in the assessment and where there is a reported mismanagement by a taxpayer that needs to be investigated.

In Nigeria, the Federal Inland Revenue Services (FIRS) as empowered by the enabling laws, has the power to employ special purpose tax officers to carry out or investigate or cause investigation to be conducted to ascertain any violation of any tax laws, and whether or not such violation has been reported to the FIRS. For instance, Ishola (2019) documented that the FIRS may cause investigation to be conducted into the properties of any taxable person if it appears to the FIRS that the lifestyle of the person and the extent of the properties are not justified by his or her source of income as declared by the person. Where the investigation reveals the commission of any offence or an attempt to commit any offence, the IFRS shall undertake the prosecution of the offence.

2.1.2 Tax Compliance

The concept of Tax compliance is the act of taxpayers to willingly obey the stipulated tax laws and regulations by responding to their tax obligations without being forced to do so (Zandi & Rabbi, 2015). It involves freely and voluntarily complying to tax payment as and when due, at the same time a clear evidence of taxpayers ability to remit accurate taxes, satisfactorily with prevailing tax laws and regulations peculiar to a particular tax jurisdiction (Olaoye & Ekundayo, 2016). This in effect means that tax compliance and remittances revolve on the willingness and readiness of taxpayers, both individual and corporate taxpayers to agree and comply with tax laws and regulations without being forced or compelled to do so. Verboon and VanDijke (2014) documented that the willingness of individual and corporate organisations to comply with the tax laws and regulations on their own without being forced to do so, implies tax compliance. Also, it is the degree to which taxpayers oblige to prevailing tax laws and tax regulations willingly by ensuring accurate tax computations, early filing and remittances within the stipulated time frame (Olaoye, Ayeni-Agbaje & Alaran-Ajewole, 2017). In the same manner, Palil and Mustapha (2011) in an earlier study, defined tax compliance as the ability of corporate and individual tax payers to willingly act in accordance with the tax laws, declare correct income, claim correct tax reliefs, rebates and deductions, and then pay all their tax obligations on time.

2.1.3 Adequate Tax Education and Compliance Awareness

Tax education according to Muliari and Setiawan (2017) was the process of instructing and creating an understanding and awareness of taxation knowledge to people to know, be aware and have explained to them in the language the tax payer understands, the need and essence of tax payment and also the implication of not complying. Nurhayati (2015) defined tax compliance awareness as consciousness of paying taxes as a form of moral attitude which

gives a contribution to the state to support the development of the country and strive to comply with all the tax laws and tax rules set out by the state. The study of Rantung and Priyo (2018) stated that tax education and compliance awareness is important because are forms of awaking the mental and behavioural attitude and consciousness of the taxpayers. The study went further to state three main types of consciousness in terms of tax payment. First, that tax is a form of participation in support of the country's development, that taxpayers should know what tax to pay, how to determine how much to pay and the reason of paying tax. Second, the delayed tax payment and the reduction of the tax burden are strongly detrimental to the state, that taxpayers would want to pay tax because the understanding that the delay in payment of taxes could delay financial resources for the government to provide the essential amenities and developmental projects. Third, tax set by the laws can be enforced if tax compliance is violated. That the government can use force and ensure that tax payment is complied with, since tax payment is backed by strong law foundation and it is an absolute duty of every taxable citizen to pay tax and there are provisions to prosecute the offenders, at which point they pay more (Rantung & Priyo, 2018).

2.2 Theoretical Underpinning

The Theory of Planned Behaviour: The theory of planned behaviour was developed by Ajzen in 1985 as an extension of the theory of reasoned action (Musgrave & Musgrave, 1982). The theory postulates that the people are more likely to do a behaviour if they evaluate the suggested behaviour as having possible results (attitude). Furthermore, the main proposition of the theory of planned behaviour is that there is one immediate determinant of behaviour, normally the person's intention to perform or not to perform it. According to the theory, the intention is itself in turn viewed as determined by three factors of attitude, subjective norms and subjective control towards the specific behaviour. More specifically, the theory of planned behaviour attempts to provide an account of the way in which attitude shows itself. Subjective norms and subjective control and intentions combine to predict taxpayers conduct.

Other proponents of the theory of planned behaviour include Itashiki (2011), who opined that a high correlation of attitude and subjective norms to behaviour has been confirmed in many studies. That to improve on the predictive power of the theory of reasoned action, there is a proposition of perceived behavioural control to help account for behaviours that arise where an individual control over the behaviour is incomplete. By this, Itashiki (2011) argued that the theory of planned behaviour reflects the role of non-volition in predicting behaviour.

On the contrary, Niway and Wondwassen (2015) criticised the theory of planned behaviour, and stated a counterargument, that against the high relationship between attitude, subjective norms and behaviour, that it is not at all the cases the postulation of Ajzen' theory of planned theory of can work. Niway and Wondwassen (2015) criticisms was based on the premise that because of circumstantial limitations, attitude and subjective norms do not always lead to

behaviour, rather the willingness of the individual. This theory was seen to be appropriate and relevant to this study because tax compliance is situated with the behavioural conduct and the determined attitude of the taxpayer. The taxpayer's willingness to comply with tax laws is based on a perceived mind that it is worth a civic responsibility and worth doing.

2.3 Empirical Review

Olaoye and Agugom (2018) examined tax incentive as a catalyst of tax compliance for tax revenue and economic development. It examined the various tax incentives available to tax payers, the level of compliance and its effects on tax revenue and the economic development of Nigeria. An *ex-post facto* research design was adopted for the study. Data was extracted from Federal Inland Revenues Service (FIRS), Central Bank of Nigeria statistical bulletin. Gross Domestic Product (GDP) was adopted as an indicator of economic development based on the tax revenue as a reflection of tax compliance. The result showed a considerable compliance level based on the tax incentives made available to taxpayers. The study revealed that Tax Revenue (TAXREV) had a positive significant influence on economic development proxy GDP in Nigeria. The paper recommended that the government should utilise the tax revenues very effectively; hence there is strong association between tax compliance, tax justice, tax revenue utilisation and good corporate governance.

Enofe, Embele and Obazee (2019) carried out an investigation to determine the impact of tax audit and investigation on tax evasion. A survey research design was adopted with responses obtained through a well-structured questionnaire administered to staff of revenue generating agencies in Bayelsa State, Nigeria. The Ordered Logistic Regression technique was applied to test the hypotheses of the study. Findings from the study revealed that a tax audit in the form of a desk audit, field audit and back-duty audit, exert a significant negative influence on tax evasion. It was also revealed that the explanatory power of tax investigation significantly and negatively impacts on tax evasion. The study, therefore, recommended among others that tax audits should be carried out on a routine basis to serve as a check and a preventive tool for tax evasion and taxpayers should be adequately profiled and selected for audit to avoid inefficiencies and audit delays.

Munyentwali (2015) undertook an empirical examination with the aim of determining the factor affecting tax compliance in Rwandan formal and informal sector businesses operations in Rwanda. The study employed survey research design using primary source via structured questionnaire administered to 793 respondents across the country. The study adopted a multivariate logistic regression to analyse the data obtained. The study found that compliance cost, punishment rate, attitude towards taxation and understanding of government spending had a statistical significant effect on tax compliance and behaviours. The study advised and suggested that inspection of compliance costs, tax amnesty strategy and tax instruction should be deployed administratively to enhance tax compliance. Similarly, Badara (2012) investigated the effect of tax audit on tax compliance in Nigeria, a case study of Bauchi State

board of internal revenue. The study explored survey research design and obtained data from the primary source using a questionnaire administered to the staff of the Bauchi State Board of Internal Revenue Services. The data generated from the questionnaire from the respondents were analysed using simple percentages. The study revealed that relevant tax authorities using the tax audit positively affected tax compliance in Bauchi State Board of Internal Revenue Services.

Oladipupo and Obazee (2016) studied the effect of tax payers' knowledge and penalties on tax compliance in small and medium scale enterprises in Nigeria. The study used survey research design and obtained data from a structured questionnaire and the collected data were analysed using ordinary least square regression method. The study revealed that tax knowledge had a positive significant effect on tax compliance, while default penalties revealed a positive but insignificant effect on tax compliance. The study advised that tax knowledge should be embarked upon by the government order to increase more tax compliance from the tax payers.

Similarly, Appah and Eze (2013) researched the causality and nexus between a tax audit and tax compliance in Nigeria. The study employed both primary and secondary data using a survey through a questionnaire, and regression analysis data obtained from the financial statements of the selected units to analyse the data. The study found that the application tax audit by various tax jurisdictions in Nigeria brought about a positive significant increase in tax compliance among the private and corporate taxpayers in Nigeria

Marandu, Mbekomize and Ifezue (2015) studied the determination of tax compliance, a review of factors and conceptualisations. The study obtained data from secondary data (18 prior studies) for a period of 28 years globally. The study made a review of previous results from studies and at the end of the review, the study found the following: One, that many of the studies used different explanatory factors, making their results difficult to compare. Two, that many studies do not have theoretical framework in their work to guide in the selection of variables for the dependent and independent variables and their proxies and why the variables were chosen, since the use of theory enhances understanding of the major factors that effect a phenomenon. These deficiencies have left the tax compliance literature without meaningful convergence on the key determinants. Three, aggregate analysis showed that attitudinal, normative and subjective control variables were on the overall good predictors of tax compliance. Consequently, the study also recommended that scholars should develop few theoretical based relevant to the tax compliance that can yield accurate predictions. Also that tax policy makers should desist from the exclusive use of conventional coercive methods (subjective control factors) normally used to compel tax compliance.

Kasipillai and Jabbar (2016) examined the effect of the sex ethnicity gap on tax compliance in listed companies operating in Malaysia. The study employed survey research design, using

primary data obtained from a structured face to face interview with randomly selected tax payers in Malaysia. The study employed simple regression analysis to analyse the data obtained via the interview means. The study revealed from the analysis of the interview that gender, academic eligibility, and the individual preparing tax returns had a statistical significance to the determinants of non-tax compliance among the interviewed taxpayers. Equally, Lubua (2014) empirically examined influencing tax compliance in small and medium enterprises through the use of information and communication technology in Tanzania. The study employed a questionnaire administered to taxpayers randomly selected and analysed using Spear man Rho correlation coefficient technique. The result of the study revealed that good and adequate knowledge of taxation laws, business expertise, ethical and morale boost of workers, frequency of visitation of tax officers and instruction through information and communication technology jointly, had positive significant effect on tax compliance in Tanzania, making the taxpayer respond earlier in their tax filing, payment and tax compliance. On the basis of the above inconclusive debate and mixed results of prior studies, this study proposed the following research objective, research question and hypothesis as follows:

Research Objective: *Determine the tax audit and investigation and tax compliance in Nigeria;*

Research Question: *To what extent do tax audit and investigation affect tax compliance in Nigeria?*

Hypothesis (H₀): *Tax audit and investigation have no significant effect on tax compliance in Nigeria.*

Model Specification

$$Y_i = \beta_0 + X_i + \varepsilon_i$$

$$TAXCOMP_i = \beta_0 + \beta_1 QTAXAD_i + \beta_2 ATECA_i + \beta_3 TAXIVAD_i + \varepsilon_i \quad \text{Model}$$

Where

TAXCOMP = Tax Compliance

QTAXAD = Quality Tax Audit

ATECA = Adequate Tax Education & Compliance Awareness

TAXINV = Tax Investigation

3.0 Methodology

This study investigated the implications and effects of tax audit and investigation of tax compliance. The study employed survey research design, using a self-structured questionnaire administered to selected senior members of the Nigerian Federal Inland

Revenue Services (FIRS), a body saddled with tax administration in Nigeria. Descriptive and inferential statistics were employed to analyse data sourced from the respondents.

4.0 Data Analysis, Results and Discussion of Findings

4.1 Descriptive Statistics

Participants' responses to Tax compliance related questions are briefly presented in the Table 4.1 below:

Table 4.1: Tax compliance

	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree	Total	% of Total Agree	Mean (Std.)	Rank
Tax audits exercise witness corporation of tax payer	0 [0.0]	3 [0.8]	16 [4.5]	192 [53.9]	145 [40.7]	356 [100]	337 [94.66]	4.35 (0.61)	2
Fear of being tax audited and investigation increases tax compliance.	1 [0.3]	13 [3.7]	28 [7.3]	164 [46.1]	150 [42.1]	356 [100]	314 [88.20]	4.26 (0.78)	3
Tax audit increases the number of taxpayers in the tax net	7 [2.0]	14 [3.9]	35 [9.8]	128 [36.0]	172 [48.3]	356 [100]	300 [84.27]	4.25 (0.93)	4
Tax audits play an important role in increasing compliance	0 [0.0]	1 [0.3]	42 [11.6]	111 [31.2]	202 [56.7]	356 [100]	313 [87.92]	4.44 (0.71)	1
Regular tax audits influence tax compliance	5 [1.4]	18 [5.1]	62 [17.4]	139 [39.0]	132 [37.1]	356 [100]	271 [76.12]	4.05 (0.93)	5

Source: Field survey, 2020.

In this above Table 4.1, “Regular tax audit influence tax compliance” appears to be the least supported statement by the participants {Average Score = 4.05; SD = 0.93} with 76.12% percentage of the total Agree; the responses relatively vary as suggested by the computed standard deviation. But more participants were of the opinions that “Tax audits exercise

witness corporation of tax payer” {Average Score = 4.35; SD = 0.61} with 94.66%percentage of total Agree. The most supported statement appears to be “Tax audits play an important role in increasing compliance” {Average Score = 4.44; SD = 0.93} with 87.92% of percentage of total Agree. The percentage of total Agree for “Fear of being tax audited and investigation increases tax compliance” {Average Score = 4.26; SD = 0.78} and “Tax audit increases the number of taxpayers in the tax net” {Average Score = 4.25; SD = 0.93} statements are 88.20% and 84.27% respectively.

In Table 4.2.3, Model Summary and ANOVA were presented; the predictors were Quality Tax Audit QTAXAD, Adequate Tax Education & Compliance Awareness ATECA and Tax Investigation TAXIVAD and the dependent variable considered is Tax compliance VTAXCOP.

4.2 Inferential Statistics

Table 4.2: Model Summary and ANOVA

Model Summary					
R	R Square	Adjusted R Square	Std. Error of the Estimate		
0.345	0.119	0.111	0.36970		

ANOVA					
	Sum of Squares	Df	Mean Square	F	Sig.
Regression	6.494	3	2.165	15.838	0.000
Residual	48.110	352	0.137		
Total	54.604	355			

Source: Author’s Computation, 2020; underlying data from Field Survey. **Note:** Predictors are (Constant), QTAXAD = Quality Tax Audit, ATECA = Adequate Tax Education & Compliance Awareness and TAXIVAD = Tax Investigation. Dependent variable is VTAXCOP = Tax compliance.

From Table 4.2, the F-statistics value is found to be 15.838; Sig. = 0.000. These indicate that the combined effect of Tax Audit & Investigation proxies {Quality Tax Audit QTAXAD, Adequate Tax Education & Compliance Awareness ATECA and Tax Investigation TAXIVAD} on Tax compliance VTAXCOP is statistically significant. The adjusted R² equals 0.111 shows that 11.1 percent of variation in Tax compliance VTAXCOP is collectively explained by Tax Audit & Investigation proxies {Quality Tax Audit QTAXAD, Adequate Tax Education & Compliance Awareness ATECA and Tax Investigation TAXIVAD} on it.

The summary of the estimated regression model that investigates the effect of the Tax Audit & Investigation on Tax compliance is presented below in an empirical form.

$$VTAXCOP_i = \alpha + \beta_1 QTAXAD_i + \beta_2 ATECA_i + \beta_3 TAXIVAD_i + \varepsilon_i \dots\dots\dots \text{Model (ii)}$$

$$VTAXCOP_i = 3.451 + 0.006QTAXAD_i + 0.267ATECA_i - 0.080TAXIVAD_i + \varepsilon_i \dots\dots\dots \text{Model (ii)}$$

Table 4.3: Regression Coefficients

	Unstandardised Coefficients		Standardised Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	3.451**	0.277		12.464	0.000		
QTAXAD	0.006	0.032	0.009	0.177	0.859	0.919	1.088
ATECA	0.267**	0.039	0.346	6.853	0.000	0.981	1.019
TAXIVAD	-0.080	0.052	-0.081	-1.533	0.126	0.907	1.102

Source: Author's Computation, 2020; underlying data from Field Survey. **Note:** Predictors are (Constant), QTAXAD = Quality Tax Audit, ATECA = Adequate Tax Education & Compliance Awareness and TAXIVAD = Tax Investigation. Dependent variable is VTAXCOP = Tax compliance. **Note:** ** represent 5% significance level.

Interpretation

Based on Model one results in Table 4.3, ($TAXCOMP_i = 3.451 + 0.006QTAXAD_i + 0.267ATECA_i - 0.080TAXIVAD_i + \varepsilon_i$), the result from the study showed that each of the coefficients of quality of tax audit, adequate tax education and compliance awareness were positively signed and consistent with the study expectations ($\beta_1 = 0.006$; $\beta_2 = 0.267$) > 0. While tax investigation was negatively signed and not consistent with the expectation, $\beta_3 = -0.080$ < 0. This implied that a unit change in the quality of the tax audit, adequate tax education and compliance awareness will bring about an increase of 0.006 and 0.267 respectively and a decrease of 0.080 in tax compliance in Nigeria.

Table 4.3 shows the coefficients of the estimated regression model employed to investigate the relationship between Tax Audit & Investigation TADTINV and Tax compliance VTAXCOP; from this table, it is clearly seen that the unstandardised coefficient of Quality Tax Audit QTAXAD is positive but insignificant at 0.05 levels of significance { $\beta = 0.006$; P-value = 0.859}, which depicts that Quality Tax Audit QTAXAD has no significant effect on Tax compliance TAXCOMP. However, the unstandardised coefficient of Adequate Tax Education & Compliance Awareness ATECA is positive and at the same time statistically

significant at 0.01 level of significance $\{\beta = 0.267; P\text{-value} = 0.000\}$, which depicts that Adequate Tax Education & Compliance Awareness ATECA affects the Tax compliance VTAXCOP significantly; therefore, this means that for every unit increase in Adequate Tax Education & Compliance Awareness ATECA there is a 0.267 unit increase in Tax compliance VTAXCOP.

Tax Investigation TAXIVAD is seen to be having a negative and statistically insignificant coefficient $\{\beta = -0.080; P\text{-value} = 0.126\}$. This indicates that the influence of Tax Investigation TAXIVAD on Tax compliance VTAXCOP is negative but insignificant. Hence, from these estimated regression coefficients results, Adequate Tax Education & Compliance Awareness ATECA is the only explanatory variable that influences the Tax compliance VTAXCOP. The Collinearity Statistics columns in Table 4.2.4 shows no harmful effect of multicollinearity in the estimated model having the VIF values that were less than 3 $\{VIF < 3\}$ with their corresponding tolerance values (i.e. VIF reciprocals) above 0.10.

Discussion of Findings

This study examined the effect of tax audit and investigation on tax compliance and the study found that a tax audit and investigation had a positive statistical significant effect on tax compliance. Prior studies found similar results, Apph and Eze (2013); Jemaiyo and Muia (2016); Kasipillai and Jabbar (2016); Munyentwali (2015); Olaoye & Aguguom, 2018). The study of Munyentwali (2015) undertook an empirical examination with the aim of determining the factor affecting tax compliance in Rwandan formal and informal sector business operations in Rwanda and the study found that compliance cost, punishment rate, attitude towards taxation and understanding of government spending had statistical significant effect on tax compliance and behaviours. Similarly, Olaoye and Aguguom (2018) examined that tax incentive as a catalyst of tax compliance for tax revenue and the study found that the incentive affecting tax revenue had a positive significant influence economic growth.

Similarly, the study of Jemaiyo and Mutai (2016) undertook a study to determine the determinants of tax compliance and its influence on the level of tax compliance in the real estate sector in Eldoret town in Kenya and the study found that tax compliance cost, tax knowledge and tax audit had a positive significant effect on the level of tax compliance in Kenya which is inconsistent with the result of this study. But the study of Asstawa and Sebath (2019) investigated the analysis of tax compliance and its determinants in Kaffa, Bench Maji and Skeka zones Category B Tax payers, SNNPR, Ethiopia. The study found that tax compliance had a mixed negative and positive significant effect with tax education, tax knowledge and awareness of tax payers, the simplicity of the tax system, attitudinal behaviour of tax payers, perceived role of government expenditure and rewarding scheme for loyal tax payers.

5.0. Conclusion, Recommendations and Contribution to Knowledge.

5.1 Conclusion

The study investigated the effect of the tax audit and investigation on tax compliance; survey research design was adopted using a self-structured questionnaire to obtain primary data for the study. The study carried out descriptive and regression analysis. The descriptive analysis revealed that tax compliance is the desire of every government to finance its budgets, as expected; however, the respondents feel that voluntary tax compliance is an illusion and that may not happen, particularly in a country where the taxpayers do not comply to tax payment voluntarily because of perceived tax injustice and no optimal utilisation of tax revenue by the government. From the inferential analysis, the regression results revealed that the tax audit and investigation had a positive statistical significant effect on tax compliance in Nigeria.

5.2 Recommendations

This study had revealed mixed results, and therefore recommend that in most cases the tax audit and investigation do not guarantee tax compliance, as a result, the government is honest and efficient in utilising tax revenue in Nigeria, and provides essential facilities and infrastructure to the good knowledge of the taxpayer as a motivation to achieve tax compliance. The level of tax compliance in Nigeria could drastically improve when the taxpayers' perception of corruption and insincerity of the government is proved wrong by the governments' clear demonstration of honesty and integrity.

5.3 Contribution to Knowledge

There have been studies on tax audit, tax investigation, and tax compliance, however, to the best knowledge of the researchers, fewer studies had investigated the effect of a tax audit and investigation on tax compliance from the emerging literature in Nigeria using the exact variables used in this study. Some gaps do exist in this regard, and in filling these gaps, this study had made some contribution to knowledge that would be useful in terms of policy, theory, conceptual literature, empirical and in the accounting practice based on new discoveries from the study.

REFERENCES

- Amah, C. O., & Nwaiwu, J. N. (2018). Tax audit practice and down south tax revenue generation in Nigeria. *International Journal of Innovative Finance and Economics Research*, 6(1):99-112
- Anna, F. G., Kochi, D. T., & Weyzis. (2020). Methodology to measure the quality of tax avoidance case studies: Findings from the Netherland. *Journal of International Accounting, Auditing and Taxation*, 39(1), 1-17.
- António M., & Cristina, S. (2018). The computation of taxable income when accounting numbers are not reliable: A note on presumptions. *International Journal of Law and Management*, 60(2), 543-562.
- Appah, E., & Eze, G. (2013). A causality analysis between tax audit and tax compliance in Nigeria. *European Journal of Business and Management*, 5(2), 107-120.
- Assfawa, A. M., & Sebhatb, W. (2019). Analysis of tax compliance and its determinants: Evidence from Kaffa, Bench Maji and Skeka zones Category B Ta payers, SNNPR, Ethiopia. *Journal of Accounting, Finance and Auditing Studies*, 5(1), 32-58.
- Badara, M. S. (2012). The effect of tax audit on tax compliance in Nigeria (a study of Bauchi State board of internal revenue). *Research Journal of Finance and Accounting*, 3(1), 74-80.
- Cai, W., Lee, E., Xu, A. L., & Zeng, C. (2019). Does corporate social responsibility disclosure reduce the information disadvantage of foreign investors? *Journal of International Accounting Auditing and Taxation*, 3(4), 12-29.
- Chappelow, J. (2019). What is Per capita GDP? *Trips Finance Quarterly*, 2(1), 21-35.
- Clement, O. O., Stephen A. O., & Festus, T. S. (2018). Tax audit and tax productivity in Lagos State, Nigeria. *Asian Journal of Accounting Research*, 3(2), 202-210.
- D-Agosto, E., Marco, M., Stefano, P., Filippo, M., & D'Arcangelo, M. (2017). The effect of audit activity on tax declaration: Evidence on small businesses in Italy. *Public Finance Review*, 1(1), 1-9.
- Enofe, A., Embele, K., & Obazee, E. P. (2019). (2019). Tax audit, investigation, and tax evasion. *Journal of Accounting and Financial Management*, 5(4), 47-66.
- International Auditing and Assurance Standards Board. (2013). A Framework for Audit Quality. *International Federation of Accountants Paper Review*, 2(4), 1-5.
- Ishola, K. A. (2019). *Taxation principles and fiscal policy in Nigeria*. (2nd Ed). Kastas Publishers Nigeria Limited, Ilorin Nigeria.
- Itashiki, M. (2011). Explaining everyday crime: a test of anomie and relative deprivation theory. *Journal of Interdisciplinary Studies*, 1(1), 451-468.
- Jemaiyo, B., & Mutai, G. C. (2016). Determinants of tax compliance and their influence on the level of tax compliance in the real estate sector, Eldoret town-Kenya. *African Peer Reviewed Journals*, 12(1), 555-584
- Kasipillai, J & Jabbar, H. A. (2016). Gender and ethnicity differences in tax compliance. *Asian Academy of Management Journal*, 11(2), 73-88.

- Kovermann, J., & Velte, P. (2019). The impact of corporate governance on corporate tax avoidance – A literature review. *Journal of International Accounting Auditing and Taxation*, 36(10), 1–29.
- Lubua, E. W. (2014). Influencing tax compliance in SMEs through the use of ICTs. *International Journal of Learning, Teaching and Educational Research*, 2(1), 80-90.
- Marandu, E., Mbekomize, C. I., & Ifezue, A. N. (2015). Determinants of tax compliance: A review of factors and conceptualizations. *International Journal of Economics and Finance*, 7(8), 207-214.
- Musgrave, R. A., & Musgrave, P. B., (1982). *Public Finance in Theory and Practice*, (2nd Ed) Tokyo: McGraw-Hill International Book Company.
- Muliari, S. N. K., & Setiawan, P. E. (2011). Pengaruh persepsitentang sanksi perpajakan dan kesadaran wajib pajak pada kepatuhan pelaporan wajib pajak orang pribadi di kantor pelayanan pajak pratama denpasar timur.. *Jurnal Akuntansi dan Bisnis: Fakultas Ekonomi Universitas Udayana*, 6(1), 1-10.
- Niway, A., & Wondwossen, J. (2015). Determinants of voluntary tax compliance behaviour in self assessment system: Evidence from SNNPRS, Ethiopia. *International Journal of Science and Research*, 5(12), 967-973.
- Nurebo, B. Y., Lekaw, D. M., & Mariam, M. W. (2019). Effectiveness of tax audit: A study in Kembata Temaro zone, South Ethiopia. *International Journal of Commerce and Finance*, 5(1), 34-50.
- Nurhayati, N, K. (2015). Influence of tax officer service quality and knowledge of tax on individual taxpayer compliance in tax office (Kpp) Bojonagara Bandung. *International Journal of Applied Research* 2(2), 1-8.
- OECD (2017). SME tax compliance and simplification: Background note, prepared for ‘Roundtable Discussion at the 1st Meeting of the Working Group on taxation of SEE Investment Committee.
- Olokooba, S. M., Awodun, M., Akintoye, O. D., & Adebowale, H. I. (2018). Tax offences: Clogs in the wheel of progress and development of Nigeria as a nation. *International Journal of Law and Jurisprudence*, 9(1), 226- 236.
- Oladele, R., Aribaba, F. O., Ahmodu, A.O., & Yusuff, S. A. (2019). Tax enforcement tools and tax compliance in Ondo State, Nigeria. *Academic Journal of Interdisciplinary Studies*, 8(2), 27-38
- Oladipupo, A. O., & Obazee, U. (2016). Tax knowledge, penalties and tax compliance in small and medium scale enterprises in Nigeria. *International Journal of Business*, 8(1), 1-9.
- Olaoye, C. O., & Ekundayo, A. T. (2019). Effects of tax audit on tax compliance and remittance of tax revenue in Ekiti State. *Open Journal of Accounting*, 8(1), 1-17.
- Olaoye, S. A., & Agugom, T. A. (2018). Tax incentives as a catalyst of Tax Compliance for Tax revenue and Economic development: Empirical evidence from Nigerian. *European Journal of Accounting, Finance and Investment*, 1(8), 001-014.



- Olaoye, C. O., & Ogundipe, A. A. (2018). Application of tax audit and investigation on tax evasion control in Nigeria. *Journal of Accounting, Finance and Auditing Studies* 4(1), 79-92
- Olaoye, O. O., Ayeni-Agbaje, A. F., & Alaran-Ajewole, A. P. (2017). Tax information, administration and knowledge on tax payers' compliance of block moulding firms in Ekiti State. *Journal of Finance and Accounting*, 5(1), 131-138.
- Palil, M. R., & Mustapha, A. F. (2011). Tax audit and tax compliance in Asia: A case study of Malaysia. *European Journal of Social Sciences*, 24(1), 7-32.
- Rantung, T. V., & Priyo, H. A. (2018). Dampak program sunset policy terhadap faktor-faktor yang mempengaruhi kemauan membayar pajak. *Jurnal De Makalah Simposium Nasional*, 1(1), 101-122.
- Safa, G., Nadia L., & Faten L. (2017). Does family ownership reduce corporate tax avoidance? The moderating effect of audit quality. *Managerial Auditing Journal*, 32(7), 731-744.
- Santoro, A. (2016). Do small businesses respond to a change in tax audit rules? Evidence from Italy. *Public Finance Review*, 2(3), 412-428.
- Verboon, P., & Van Dijke, M. (2014). A self-interest analysis of justice and compliance: How distributive justice moderates the effect of outcome favorability. *Journal of Economic Psychology*, 28(1), 704-727.
- Zakir, A. (2018). The influence of the corporate sector on the effectiveness of tax compliance instruments, (2nd Ed.). John Hassel Dine. *Emerald Publishing Limited*. 119 – 146.
- Zandi, G., & Rabbi, F. (2015). The tax evasion and compliance: An exploratory study on Malaysian tax payers. *International Journal of Humanities and Social Science Research*, 1(1), 8–13.