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The Role of Tax Audit on Tax Revenue: Evidence from Rivers and Bayelsa State Internal Revenue Services and Federal Inland Revenue Service.

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Abstract: Tax revenue seems to be the most consistent government revenue and it is believed that tax audit will bring in more taxpayers into the tax web. On this premise, the study target is to discover the relationship among tax audit and tax revenue. The survey research design was relied on using the questionnaire for the collection of data from the Rivers State and Bayelsa Internal Revenue Services and the Federal Inland Revenue Services officials. Questionnaires were self-distributed and also involved proxy distribution. Randomly distributed questionnaires were returned by sixty respondents. The descriptive (pie chart, percentages, mean, SD) and the PPMC were used. The result posted a significant value of 0.000 for the two hypotheses and Pearson correlation of 0.677 and 0.575 for hypotheses 1 and 2 respectively. This means that there is a relationship that is significant exists between field audit and tax revenue and also between desk audit and tax revenue. The result further indicated that both field audit and desk audit have positive and moderate relationship with tax revenue. The recommendation from the study is that tax audit must be a consistent exercise in order to make more or increase revenue through the various taxes. It concludes that relationship that is significant exists between variables of the study (tax audit and tax revenue).

Key words: Tax audit, field audit, desk audit and tax revenue

1. Introduction

Universally, governments shoulder the civil responsibility in terms of providing basic and fundamental social facilities for her citizens' well-being. The revenue a nation generates and its application determines her rate of development and how it can provide basic infrastructure as no economy grows without satisfactory resources for infrastructural resources. Obara and Nangih (2017) opined that in every nation the expectation is that governments should make available worthy roads, preservation of law as well as order, ensure protection against all outside aggression, attaining a living standard by regulating trade and commerce and ensure peaceful environment for her citizens. The foremost world economies are maintained and made by a viable system of generation of revenue (Mebratu, 2016) and one foremost means of sustainable of global revenue generation is taxation. Although other sources of revenue are at the disposal of the government, globally, that of taxation remains the most reliable, consistent, and realistic. Edori et al (2017) argued that essentially, the organization of Nigeria's tax system made it a revenue making tool.

Some taxpayers in Nigeria are not compliant to obligations the tax laws imposed on them; as a result measures are to be taken by the authorities with the sole aim of improving the compliance level which will invariably lead to increased revenue. Olaoye and Ekundayo (2019) posit that when remittance of tax and tax compliance becomes low it the government capacity for fund raising for developmental purposes becomes limited. And a way to advance tax compliance level is tax audit (Mebratu, 2016) and since higher compliance results to higher revenue, it means that tax audit will likely result into higher revenue. Tax audit was elucidated by Bassey (2013) to be a compliance instrument vital in majority of the tax jurisdictions globally. A major aim of tax audit is ensuring

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that taxpayers discharge their tax liabilities, comply with the tax audit outcome, and in the future comply with tax laws provisions.

With the present state of the Nigerian economy coupled with much borrowing and corruption, the nation is indeed in dare need of more revenue. Recently a serving Governor accused the federal government of printing about sixty billion Naira and added to the federation account before sharing the revenue. This is a pointer that the nation is facing revenue problems. This aroused our attention on the need to use available means to upsurge tax revenue which tax audit seems to be a formidable weapon. So the drive of the study is to find out the role of tax audit on revenue from tax.

2. Theoretical Review

Theory of Economic Deterrence.

The economic deterrence theory was adopted in the study. It has to do with the tax authorities using force as well as penalties to coerce taxpayers to comply with the tax laws. It is common believe that when penalties, sanction or punishment are deployed by tax authorities. Tax compliance research commenced with “economics of crime model”. It is a theoretical model Becker (1968) that Allingham and Sandmo (1972) applied on tax compliance. The model postulates compliance to tax laws is a function of enforcements by relevant tax authority. The believers of this theory are of the opinion that when sanctions and strong punishment are use in threatening taxpayers that they comply with the tax laws (Murphy, 2004).

When taxpayers are threatened with tax audit or tax audit is conducted on them, they tend to improve on their compliance for fear of the implication of tax audit. This makes this theory very relevant to this study.

3. Conceptual Review

3.1 Tax Audit

Olatunji and Temitope (2018) see audit as verification done on-site activity that inspects or examines quality system to make sure of compliance by taxpayers. Auditing as defined by Edori and Edori (2018) has to do with examining and verifying accounting records mostly as it regards to financial accounts. Auditing is the examination and verification of accounts and records as it concerns financial accounts. Tax audit means inspecting taxpayer's financial affairs done by tax officials from tax office with the singular aim of finding out if the reported tax amount is paid and also in agreement with laws as well as regulations guiding taxation. It examines if taxpayers have appropriately reported liability of tax and also satisfied other necessary obligations. It is seen to be frequently more comprehensive and wider when compared with other forms of examination like the overall (general) desk checks, compliance visits or programs of matching document (document matching) (OECD, 2006). Kircher (2008) explained tax audit as a procedure where revenue service attempts to check the figures a taxpayer has writes on his/her tax return.

Tax audit objectives as outlined by Institute of Chartered Accountants of Nigeria (ICAN) (2009) are the determination by tax auditors whether or not books of accounts are satisfactory and records existence for the reason of determining taxable profit or loss of taxpayers and as a result the payable tax; calculation of tax amount submitted by taxpayer to tax authority with the records that are basic; and that the entire tax legislations applicable are put together by the taxpayer. To Badara (2012), objective of tax audit comprises the setting up of a tax administration that is constant in which economic changes can be dealt with; to keep strategies in place so that tax disputes can be resolved between tax authority and taxpayers; maintaining a mechanism that is strong to take care of ways of tax avoidance that are accessible to several establishments but are vulnerable to abusing tax; bringing taxpayers that are defaulters to the tax authorities net; and prove the wholeness, accuracy and filing within time the tax returns the tax payers submitted. Loses that is persistent; nil (zero) tax returns; cases of refund; returns not submitted; low or little tax yield; doubt of tax avoidance by the taxpayer; evasion or fraud; thin capitalization; transfer mispricing; and most regular is when tax clearance certificate are request by taxpayer as some criteria for selecting cases for tax audit (Bitrus, 2014; Okonkwo, 2014)

Tax audit as classified by Bassey (2013) and ICAN (2009) are field audit and desk audit while Onuoha and Dada (2016) and Onoja and Iwarere (2015) argued that registration audit, desk or office audit, back duty, and field audit are the forms of tax audit. **Registration Audit:** This audit type is employed in order to keep persons and businesses in tax net. It requires documenting identities of taxpayers and other relevant business information gotten from Nigeria Custom Service (NCS) as well as Corporate Affairs Commission (CAC). This enables tax authorities ascertain establishments and other individuals chargeable that are not within tax laws in order to make them register and charge them accordingly (Onuoha & Dada, 2016). **Desk (Office) Audit:** It is done within the tax office premises and sometimes the relevant tax office demands for needed documents. Documents that are relevant are requested by the tax officials. The auditors will do all the review within the tax office premises. Literature admitted that this type of audit is cost effective. It gives the tax officer the needed independent in determining accurately the taxpayers' tax liability (Adediran et al, 2013; Bassey, 2013). The taxpayer is not given any prior notice and the taxpayer will only know when a letter is sent to him demanding for particular documents and/or clarifications (Onoja & Iwarere, 2015). **Back Duty Audit:** It is engaged on when there is suspicious capital allowance claim relating to preceding or current year, a state where lower tax is charged because of falsified document the tax payers submitted,, a decrease of profit in tax returns files in and failure in disclosing or including income or earning fully in return that is available to tax office (Onuoha & Dada, 2016; Onoja & Iwarere, 2015). **Field Audit:** Is a form of audit which permits tax officers to appear physically in the taxpayer premises for physical verification and confirmation of facts and figures of the returns claim of the taxpayer. According to Olaoye and Ogundipe (2018), desk audit frequently leads to field audit if the need for further documents arises for the completion of taxpayer's inspection. Field audit is elaborate and broader when compared with desk audit. It can be argued that the reason for conducting field audit in taxpayers' premises instead of the office of the tax authority is to aid tax auditors do a complete examination on records and documents of the taxpayer and also to find suitable information from the company's officials directly. This means that the field audit permits physical appearance of tax officers in the premises of the taxpayer to physically verify and endorse the taxpayer's returns claim in facts and in figure. Literature avowed that field audit, according to Onoja and Iwarere (2015) and Olaoye and Ogundipe (2018) could increase taxpayers' compliance level. The purpose of field audit is to enable the relevant tax office officials get direct access to records and examine them physically and target the principal officers' explanations directly. It also eradicates the occurrence e of jumping into conclusions early by depending on desk audit, and to perhaps uncover cases that might require investigation

Okonkwo (2014) opined that the scope and the phases of tax audit to be performed may depend on the audit type to be executed, the fundamental cause and objectives aimed to achieve. He further stated that Federal Inland Revenue Service (FIRS) perform the following forms of audit: the registration audit; advisory audit; and record keeping. He explained that advisory audit involves visiting a newly businesses that is established and advising them as it concerns their responsibilities on types of tax, declarations filing, amounts due for payment, records to be kept and the probability of an audit if considered risky and sanctions likely to apply for not complying. It requires obtaining information from the CAC on company newly registered and also visits the offices and offer advice on company's obligations as contained in the law. He explained record keeping audits to mean a check on organisations that possibly will have reputation of not properly keeping records. The taxpayer's obligations are pointed out according to the provisions of CITA Section 63 vis-à-vis records keeping..

3.2 Tax Revenue

Taxation makes provision for revenue flow that is stable and also predictable for financing development goals (Pfister, 2009) hence the tax structure is designed for the purpose income generation. (Edori et al, 2017). Edori (2022) argued that revenue from taxes is one revenue source the Nigerian central government relies on to raise money that will be used in meeting up her responsibility to the society. He further opined that to Nigerian government, tax revenue is still the foremost revenue source. Amah and Nwaiwu (2018) asserts that tax revenue remains the totality of the revenues from various forms of taxes. To Anyanwu (1997), it is payment or transfer mandatory from individuals, and organizations to the government. Tax revenue according to Edori (2022) is the revenue the government generates via obligatory transfer from individuals and corporations that are taxable. Tax revenue is the entire income collected by a government from various taxes. Collected taxes by the federal, state and local government areas in Nigeria are contained in part 1, 2, and 3 respectively according to the taxes and levies schedule "(Approved list of collection) Act (Amendment) Order, 2015."

3. Empirical Review of Related Studies

Bortey (2011) case study using Ghana Revenue Authority tried to find out how collection of revenue could be improved through the practice of tax audit, found out that tax audit is very essential in enhancing generation of revenue and also plays part in tax administration. Haroon (2019) empirical evidence from Afghanistan Revenue Department (ARD) was targeted at uncovering tax audit effects on collection of tax revenue. Study established that tax audit rises the ARD collection of revenue nevertheless, not an effective means to improve tax compliance voluntarily. Adediran et al (2013) study to find out if tax audit and tax investigation impact on Nigeria's revenue in indicated that government revenue base can be increased through tax audit and tax investigation and could also stamp out the country's incidences of tax evasion. Onoja and Iwarere (2015) empirical study shows that, in Federal Inland Revenue Services, a relationship that is positive and significant between tax audit and revenue generation. Using primary source and secondary sources, Amah & Nwaiwu (2018) examined tax audit practice in Nigeria generation of revenue from tax on down south, collected data and analysed by means of linear regression analysis and also multiple regression analysis. The results point out that the predictor variable (tax audit practice) has positive effect on tax revenue (criteria variable) in Nigeria. Onuoha and Dada (2016) examination of tax audit and tax investigation on the light of their imperativeness in achieving efficient administration of tax in Nigeria disclosed that both tax audit and tax investigation are unavoidable in improving tax revenue collection in Nigeria. Nwaiwu and Macgregor (2018) results point out that tax audit has significant and positive effect on the generation of tax revenue. Specifically, back duty was revealed as having significant effect on both measures of tax revenue (personal income tax and company income tax). Mirera (2014) study was narrowed to cover only Nairobi West region, Kenya Revenue Authority. Adopting the descriptive approach, sourced data from secondary sources, precisely from the reports of Kenya Revenue Authority and using the T-test analytical model in analyzing data. The t-statistics result showed significant for tax paid in the past before the audit and tax paid subsequently from the post audit indicated clear increase tax paid after tax audit, as ascertained in "random tax audit, cut-off tax audit and conditional tax audit". Furthermore, collection of taxes from certain firms in two prior years to the audit and after two years of the audit showed an increase in the collection of tax after the audit. Accordingly, it will be correct to argue that tax audit is related directly to revenue collection. Woldtsadik (2019) study saw that in the branch office of ERCA East Addis Ababa, tax audit (desk, field, back duty and registration audits) have positive significant effect on both tax compliance and revenue. Tarfa et al (2020) investigation discovered tax audit techniques application and provision of training for taxpayers are factors that are positive in affecting tax revenue generation meaningfully, but contrarily, a practice that is illegal by taxpayer is a factor that negatively affects tax revenue generation.

The empirical reviewed showed the absence of studies that covered Rivers State and Bayelsa State Internal Revenue Services and the FIRS in both states of the Federal Republic of Nigeria. This is the point of departure in this study

4. Methodology

The study embraced the survey research design and covered Bayelsa state and Rivers state. Both states Internal Revenue Boards and their counterpart in the federal formed the study population and their officials were the target population. The 5 Likert scale questionnaire was the instrument the study depended on for data collection. The questionnaires were randomly distributed within the geographical coverage of the study through personal distribution and proxy distribution. Sixty were returned and were all useful hence sixty respondents were used for the analysis. In analyzing the data the descriptive statistics such as pie chart and percentages were adopted and the Pearson Product Moment Correlation was the technique for analyzing the relationship between the variables.

5. Results

Gender of Respondents.

This shows the number or percentage of the study respondents that are male or female

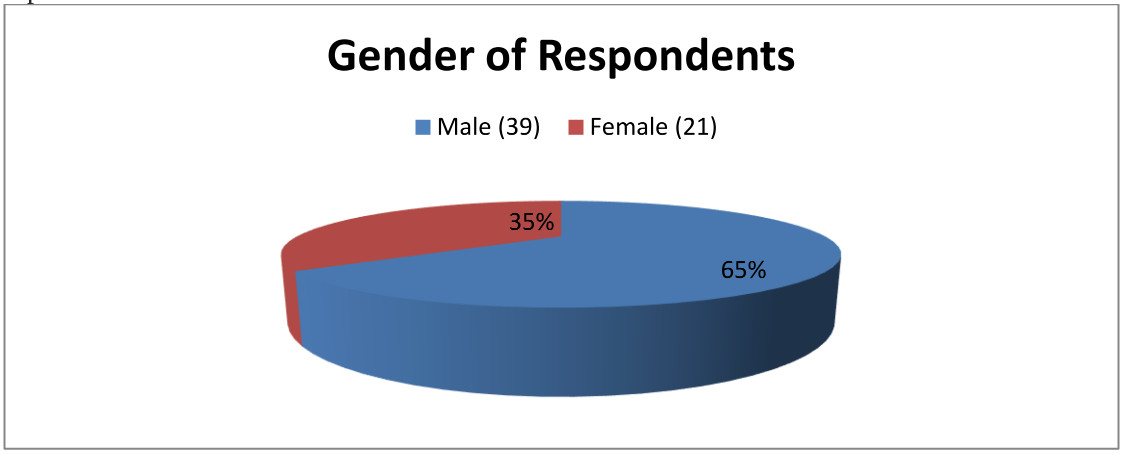

Figure 1: Pie Chart representing Gender of Respondents

Figure 1 represents the gender distribution of respondents. The 60 respondents comprises of 39 males and 21females. That is, 65 per cent represents the male population of the respondents while 35 per cent represents the female population of the respondents.

Experience of Respondents

This shows the number or percentage of the study respondents' years of experience on the job

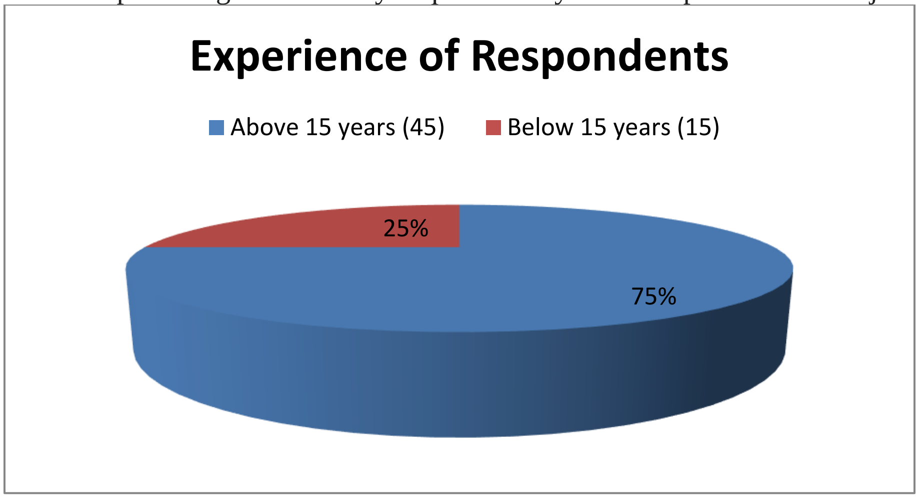

Figure 2: Pie Chart representing Experience of Respondents

Figure 2 represents the on the job experience distribution of respondents. Out of the 60 respondents, 45 have above 15 years' experience while 15 have less than i5 years' experience on the job. That is 75 per cent of the respondents represent respondents with more than 15 years' experience while 25 per cent have less.

Level of Education

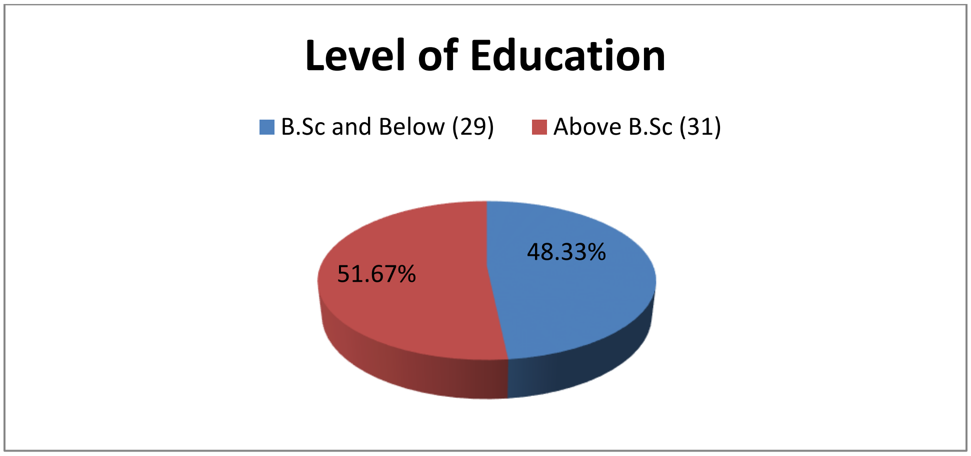

Figure 3: Pie Chart Representing Respondents Education Level

Figure 3 represents the education level of the respondents. Out of the 60 respondents, 29 representing 48.33 per cent have B.Sc. or lower level of education while 51.67 per cent level of education is above B.Sc.

Table 1: Distribution for Field Audit, Desk Audit and Tax Revenue

Proxies	**Statements**	**N**	**Mean**	**Std. Deviation**
Field Audit	It is engaged by tax authority for achieving higher revenue	60	3.3303	1.40801
	It entails that taxpayers are adequately informed prior to the audit commencement date.	60	3.4312	.94641
	It allows physical verification of taxpayer's submitted claim in order to ascertain facts and figure submitted as returns.	60	3.6606	1.02938
	It lessens tax evasion problems, including avoidance and irregularities for some period.	60	3.8716	1.09799
Desk Audit	Desk audit most often time leads to field audit especially when more documents and/or explanations are required.	60	3.5413	1.00491
	It allows auditors to determine independently the accurate tax liability of the taxpayers	60	3.3394	.87369
	It triggers suspicion sometimes	60	3.5046	1.07689
	Desk audit is cost effective since it occurs within the premises of tax office	60	3.5688	.97532
Tax Revenue	Consistent tax audit results in higher companies income tax revenue	60	3.5413	1.00491
	Taxpayers compliance increase when after audit which invariably leads to higher revenue	60	3.3394	.87369

	The effect of tax audit on tax revenue does not last for a very long time	60	3.5046	1.07689
	The self-assessment method has boost tax revenue	60	3.5688	.97532
	Valid N (listwise)	60		

Source: Research survey, 2022

The descriptive analysis above showed that the respondents agreed with the questions since the mean of each question is above 3.

Test of Hypotheses

The reason for hypotheses testing is to found out empirically the correlation between the study variables (predictor and criterion).

Ho_1: There is no significant relationship between field audit and tax revenue

Table 3: Relationship between Field Audit and Tax Revenue

Correlations

		Field Audit	Tax Revenue
Field Audit	Pearson Correlation	1	.677
	Sig. (2-tailed)		.000
	N	60	60
Tax Revenue	Pearson Correlation	.677	1
	Sig. (2-tailed)	.000	
	N	60	60

**. Correlation is significant at the 0.01 level (2-tailed).

From the analysis above (table 3) on the relationship between field audit and tax revenue, it shows that Pearson correlation is 0.677 while the significance value is 0.000. The Pearson correlation (r) which is 0.677 shows that 67.70% of variance in tax revenue is predicted for by field audit. The r value also showed a positive relationship meaning that the outcome of more field audit is more tax revenue and vice versa. The result indicates that $P < 0.05$ of significance meaning it is less than the 0.05. Therefore the null hypothesis is rejected and restate that significant relationship exists between field audit and tax revenue.

Ho_2: There is no significant relationship between desk audit and tax revenue

Table 4: Relationship between Desk Audit and Tax Revenue

Correlations

		Desk Audit	Tax Revenue
Desk Audit	Pearson Correlation	1	.575
	Sig. (2-tailed)		.000
	N	60	60
Tax Revenue	Pearson Correlation	.575	1
	Sig. (2-tailed)	.000	
	N	60	60

**. Correlation is significant at the 0.01 level (2-tailed).

From the result of the analysis in table 4 above on relationship between field audit and tax revenue, it shows that Pearson correlation is 0.575 while the significance value is 0.000. The Pearson correlation (r) which is 0.575 shows that 57.50% of variance in tax revenue is predicted for by desk audit. The r value also showed a positive relationship meaning that the outcome of higher number of desk audit is higher tax revenue and vice versa. The result also indicates presence of significance at $P < 0.05$ level. Therefore hypothesis 2 is rejected. Meaning that there is significant relationship between desk audit and tax revenue.

6. Conclusion and Recommendations

The study intended to find out the role of tax audit on tax revenue by selecting field and desk audits as proxies of tax audit against tax revenue. From the analyses results, the study determines that tax audit plays a vital role on tax revenue since there is the existence of significant relationship as well as a positive correlation between the variables.

The study then made recommendation that tax audit must be done on regular interval and not leaving it for a very long time. The audit/investigation department should be given a maximum number of years before a taxpayer is audited and not too long.

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