
Tax Audit, Investigation, and Tax Evasion

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Abstract

The issue of tax evasion continues to attract the attention of government, policymakers and researchers. Several studies have been conducted on how tax evasion can be curbed to increase government revenue. The broad objective of this paper was 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 tax audit in the form of 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 audit 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.

Keywords: Tax Evasion, Tax Audit, Tax Investigation, Forensic Investigation, Bayelsa State, Deterrence theory

1.0 Introduction

The increasing cost of government operations coupled with the need to meet the desiring social needs of citizens has left governments both in developed and developing nations with intensifying efforts towards improving the tax revenue base of their countries. Tax, which has been regarded as the most reliable source of government revenue serves as a principal means through which government can fund her fiscal budgets to cater for expenditures needed to enhance the standard of living of her citizenry. It is used to carry out the legitimate duties of government including the provision of security, healthcare, basic infrastructure and education necessary for economic development (Modugu & Anyaduba, 2014). Hence, tax plays a crucial role in the development of a country. However, the effect of tax may not be felt in countries characterized by low revenue-generating capacity resulting from tax evasion.

Tax evasion is a direct violation of tax laws, norms and ethics as regards a citizen's obligation to pay tax (Folayan & Adeniyi, 2018). It occurs when eligible taxpayers (individuals or entities) deliberately employ means to reduce their tax liabilities or completely ignore the payment of tax. Tax evasion is a criminal offence characterized as a willful default to escape the payment of legally

due tax (Olokooba, Awodun, Akintoye & Adebowale, 2018). It is achieved through false reporting such as declaring less income or profit, overstating expenses, deliberate concealment of taxable income, and in extreme cases - failing to register with appropriate tax authorities (Nwocha, 2017).

Most nations have been fraught with issues of tax evasion and Nigeria is no exception as actual tax revenue continually falls below the optimum expected tax revenue projected by various tax authorities. Although the amount of tax revenue generated over the years has been on the increase, the reported tax gap which shows the difference between targeted tax revenue and the actual tax collected gives an indication of tax revenue lost to evasion. The Federal Inland Revenue Service (FIRS, 2018) reported a tax gap of N861.76 billion in 2017 and N1.4 trillion in 2018 representing about 18% and 21% of targeted revenue respectively. Implicitly, this demonstrates a compliance rate of about 80%. Yet, as of 2018 Nigeria still records a low tax-to-GDP ratio of about 6% suggesting that a significant amount of tax revenue is unreported (Punch, 2019).

The gross of tax evasion is not farfetched among individual states in Nigeria. In particular, Bayelsa state records a low yield in tax revenue. The bulk of the Internally Generated Revenue (IGR) of the state accrues from the PAY-AS-YOU-EARN (PAYE) tax system dominated by the government employees. This is because tax administration under the PAYE scheme is usually certain and offers little or no chance for evasion. However, over-concentration on PAYE has not only left tax payers under the scheme with a huge burden but also, potential tax revenues have been lost through other sources not covered by the PAYE scheme. In 2016, out of the N7.7 billion tax revenue generated in the state, N27.5million was realized from direct assessment, representing less than 1% of the total tax revenue yield (National Bureau of Statistics [NBS], 2018). Consequently, the government through the Bayelsa State Board of Internal Revenue Service have decried on the level of tax evasion especially from corporate organizations in the state (The Nations, 2018).

In a bid to control the level of tax evasion and increase government revenue, tax audit and investigation have been applied by tax authorities both at the state and federal level (Onoja & Iwarere, 2015; Olaoye, Ogunleye & Solanke, 2018). Tax audit which may take the form of a desk audit, field audit or a back duty audit has the defining role of examining taxpayers record to ensure that information contained in returns filed to tax authorities are accurate and following applicable tax standards. Whereas desk audit is carried out on a routine basis, field audit and back duty audit are special audits instituted when the tax authority doubts the authenticity of information contained in tax returns. The object is to ensure that attempts to underreport income, overstate expenses as well as other irregularities are identified with appropriate assessment raised thereof (Institute of Chartered Accountants of Nigeria [ICAN], 2014). However, experience has shown that tax audit process usually leaves discrepancy between the taxpayers and the authorities which can span over twelve months before such discrepancy is finally reconciled and associated assessment paid thereof (Nwaiwu & MacGregor, 2018; Oyedokun, 2016). According to these authors, this delay is neither in the interest of the taxpayer nor the tax authority as business resources are usually commitment throughout the period of the audit and the tax amount is affected by the time value of money with potential tax liabilities locked up in unresolved tax portfolios.

Tax investigation which differs in scope from tax audit and carried out by tax officials with special training in investigation involves a more detailed and painstaking examination of a tax payer's

record. According to Oyedokun (2016), tax investigation is activated when there is enough predication to show that the taxpayer has evaded tax or committed other types of tax fraud. The essence is to carry out an in-depth review of a tax payer's record in order to: gather enough evidence to support or refute an alleged case of tax evasion; ensure that tax evaders are prosecuted to serve as deterrence; and ensure that tax due to the government is not lost to evasion. Nevertheless, tax authorities often choose to pursue taxpayers civilly and are more disposed to compound tax offences as proving an act of evasion is often difficult, time-consuming and costly. Thus, tax evaders end up defeating prosecution and escaping applicable criminal charges.

The extent to which tax audit has been able to curb the incidence of tax evasion vis a vis to ensure compliance and raise government revenue has been subjected of various empirical findings (see Appah & Eze, 2013; Modugu & Anyaduba, 2014; Olaoye et al., 2018; Olaoye & Ekundayo, 2019; Onoja & Iwarere, 2015). However, there exists a paucity of empirical evidence to support the use of tax audit and investigation as a means of achieving an efficient tax system. To that effect, Onuoha and Dada (2016) carried out a content analysis to establish the role of tax audit and investigation in tax administration leaving room for further empirical research. Available studies (Adediran, Alade, & Oshode, 2013; Wuyah, Aku, & Ahmad 2018) determined the effect of tax audit and investigation as a single concept without ascertaining their individual effects. We recognize the study of Olaoye and Ogundipe (2018) as being the first empirical evidence on the individual effect of tax audit (incorporating various forms of audit) and investigation. Whilst these studies have been conducted in different regions and states, evidence from Bayelsa state is yet to be examined to the best of our knowledge. This study, therefore, attempts to fill this gap and contribute to the body of empirical literature by posing the following questions:

1.2 Research Questions

1. What is the impact of desk audit on tax evasion?
2. Does field audit affect tax evasion?
3. What is the effect of back duty audit on tax evasion?
4. Does tax investigation have any impact on tax evasion?

1.3 Objectives of the study

The broad objective of this study was to determine the impact of tax audit and investigation on tax evasion in Bayelsa State. Specifically, the study was conducted to:

1. determine the impact of desk audit on tax evasion;
2. investigate the effect of field audit on tax evasion;
3. determine the effect of back duty audit on tax evasion; and
4. ascertain the impact of tax investigation on tax evasion.

1.4 Statement of Hypothesis

1. Desk audit has no significant relationship with tax evasion.
2. Field audit has no significant relationship with tax evasion.
3. Back duty audit has no significant relationship with tax evasion.
4. Tax investigation has no significant relationship with tax evasion.

2. 0 Literature Review

2.1 Tax Evasion

Nwocha (2017) defined tax evasion as an illegal method employed by taxpayers to reduce or escape the payment of their tax liabilities. Nangih and Nkemakola (2018) see tax evasion as a deliberate refusal of a taxpayer to disclose his/her source of income to tax authorities to pay less or none of his/her tax liability. Fakile and Agdebie (2011) submitted that tax can be evaded partially or fully. Whereas partial evasion involves the understatement of individual's or corporate earnings, full evasion occurs when an individual or corporate body who is eligible to pay tax fails to register with relevant tax authorities (Fakile & Agdebie, 2011). From the above submissions, it can be inferred that tax evasion involves is a deliberate omission, concealment or understatement of an income or profit that is subject to tax. It involves the application of different forms of illegal methods to induce a low tax liability. Some of these methods include overstating of expenses, reducing profit figures, over-reporting tax deductions, refusing to register with appropriate tax authorities, failure to furnish returns and other false declarations (Nwocha, 2017; Onyeka & Nwankwo, 2016).

Unlike tax avoidance that involves a careful tax planning exercise (for example taking advantage of loopholes in the tax system) to reduce one's tax liability (Adebisi & Gbegi, 2013), tax evasion is an outright fraud and termed a criminal offence (Olokooba, et al., 2018). According to Onuoha and Dada (2016), tax evasion could mean a serious breach on the part of the taxpayer and issues of criminality would have come to play which may eventually lead to the payment of fine or imprisonment of the defaulted taxpayer. Banwo & Ighodalo (2017) observed that based on applicable tax laws in Nigeria, tax evasion can attract up to five years imprisonment in addition to the tax due and an interest rate typically at 21%. Notwithstanding, most individuals and organisations have found justification for engaging in tax evasion.

According to Onoja and Iwarere (2015) an average Nigerian has no faith in the government and is not encouraged to entrust their resources, hence, payment of taxes are ranked among the least obligation they owe to the government. This is as a result of the perceived use of tax revenue which according to some taxpayers is irrational and used majorly for the benefit of the government functionaries than her citizenry (Nwocha, 2017; Ovute & Eyisi, 2014). These theoretical submissions can be corroborated with the findings of Modugu and Anyaduba (2014) which revealed a significant positive relationship between government spending and tax compliance. Findings of the study suggested that the chances of tax compliance will increase when citizen perceive that government rationally spends tax revenue for the provision of public goods evident to her citizens. Hence, taxpayers are prone to tax evasion when they consider that their taxes are not effectively utilized.

Another predominant factor constituting tax evasion in Nigeria is the inadequate sensitization of operational tax. Nwocha (2017) stated that apart from Personal Income Tax (PIT) and Company Income Tax (CIT) manifested in the income of salaried workers and profit of companies respectively, very little is known about other sundry taxes including Capital Gain Tax, Value Added Tax (VAT), and Education tax. Obafemi (2014) investigated and confirmed that lack of awareness and education on the tax system, misappropriation of taxes collected, corruption in

public office, proliferation of taxes, and loopholes in tax laws gives rise to tax evasion in Nigeria. Similarly, Folayan and Adeniyi (2016) found a high level of corruption among tax officials, low accountability and transparency of public institution, weak capacity in detecting and prosecuting tax violators as some factors that drive tax evasion.

Other studies have shown that economic activities outside the formal sector account for a significant portion of tax evasion. Adediran et al. (2013) and Nwaiwu & Okoro (2018) argued that the income from the informal sector accounts for four times more than what is earned in the formal sector yet the bulk of the income tax yield comes from those in formal employment. Nmesirionye and Ihendinihu (2016) and Omodero (2019) found that Nigeria has lost billions of naira to these activities. The inability of tax authorities to locate these informal businesses (most especially self-employed individuals such as businessmen, contractors and professional practitioners accounts partly accounts for the tax gap and the low tax-to-GDP ratio in the country which stood at 6% in 2018. Although it has been argued that the cost of bringing these businesses into the tax net exceeds the revenue collected (Keen, 2012), it is, however, important that informal sector be covered by tax authorities for the following reasons: to increase the tax base of the country; to encourage fiscal morality such that the formal sectors will no longer see themselves as sole taxpayers; and to allow for greater demands of the state responsibilities. Besides, the government will be provided with more resources to implement its social, economic and political programs (Nwocha, 2017).

2.2 Tax Audit

Tax audit just like financial audit involves the gathering of information to ascertain the level of compliance with applicable laws (Adediran et al., 2013). It is performed to ascertain the reliability and validity of information reported to give an express opinion on the true and fairness of a financial statement (Oyedokun, 2016). Tax audit is carried out by tax officials of a relevant tax authority and different from the statutory audit carried out by licensed audit firms subject to the requirement of the Companies and Allied Matter Act 2018 as amended.

According to Kircher (2008) tax audit is an examination of a tax payer's accounts to ascertain the level of compliance with applicable tax laws, procedures and standards of a state. It represents an essential part of a tax system which ensures that taxpayers meet their compliance obligation. Modugu and Anyaduba (2014) see tax audit as the process of examining the profit and returns of a company following relevant provision of tax laws. Olaoye and Ogundipe (2018) defined tax audit as an independent examination of the books of accounts of a taxpayer by a specialized staff of the revenue authority carried out to ensure accuracy of returns filed to the tax authorities. It involves an examination of a tax payer's record to ensure that tax due, reported, and paid are done in compliance with applicable tax standards.

The primary purpose of tax audit is to preserve confidence in the integrity of self-assessment system (Adediran et al., 2013) and to improve voluntary compliance by detecting and bringing into account those who default in their tax payment (Nwaiwu & Okoro, 2018). It serves as an effective means of preventing tax evasion (Allingham and Sandmo, 1972; Olaoye & Ogundipe) and raising government revenue (Amah & Nwaiwu, 2018; Onoja & Iwarere, 2015; Wuyah et al., 2018). According to Appah and Eze (2013) and Jean (2018) tax audit is tailored at ensuring

appropriate collection of tax revenue, a minimal degree of tax avoidance and tax evasion, strict compliance with applicable tax laws and an improved level of voluntary tax compliance.

A tax audit can take the form of a desk audit, field audit, or a back duty audit (Adediran et al., 2013; Olaoye & Ogundipe, 2018, Oyedokun, 2016). According to these authors, a desk or office audit is executed within the office of the tax officials. The essence is to carry out some administrative check on returns filed to ensure compliance with tax laws. When conducting this audit, prior notice is not given to the taxpayer. The taxpayer only becomes aware of the audit when he is requested to produce certain documents or to show up for a possible interview. The outcome of the desk audit may lead to a field audit when the tax official is dissatisfied with the level of compliance of the taxpayer.

According to Olaoye and Ogundipe (2018) and Oyedokun, (2016), a Field audit is usually the outcome of a desk audit when additional information is needed to confirm the tax payer's assertions. It ensures that adequate accounting records exist to determine the accurate amount of tax payable. Wuyah, Aku and Ahmad (2018) and Olaoye and Ekundayo (2019) submitted that it is the most serious type of audit conducted as it transcends the auditors' office to the tax payer's office or premises to validate physical assets and records related to the tax reported. When carrying out a field audit special attention is often paid to items with high tax impact and it is expected that the audit will provide the tax auditors with more information to come up with an accurate tax liability (Adediran et al., 2013). However, Tax officers engaging in field audit have been criticized of diverting a huge percentage of tax funds by colluding with taxpayers who negotiate for the payment of lesser tax amount, thereby leading to loss of revenue to the government (Nwocha, 2017).

In line with the field audit, a back duty assessment or back duty audit may be instituted when the taxpayer is suspected of having engaged in tax evasion. The back duty audit allows the tax official to examine the taxpayer's records to a limited period of six years before the year of the actual audit (ICAN, 2014). According to Adediran (2013) the back duty audit is instituted when there is failure to disclose full income or earnings in the returns made available to the tax office; when a double claim for capital allowance in respect to current or previous years have been made; when there is consistent reduction in profit in the returns filed in tax office; and where the tax charged or assessed is less than what it ought to be. Where these issues are established, it may form the basis of an additional assessment, objection, appeal or referral for special investigation (ICAN, 2014).

2.3 Tax Investigation

An investigation is a systematic fact-finding and reporting process performed to consent or dispute the existence or non-existence of a material fact. It is carried out in addition to an audit and not as a substitute for an audit (Wuyah et al., 2018). The outcome of an audit mainly leads to referral for special investigation if tax evasion is suspected (ICAN, 2014; Modugu and Anyaduba, 2014). According to Oyedokun (2016) tax investigation is carried out to establish whether fraud has taken place and to determine the extent of damage caused by an alleged tax fraud or evasion.

Bassey (2013) defined tax investigation as an enquiry aimed at determining the level of fraud or willful default or neglect perpetrated by a taxpayer as regards his tax status and to obtain evidence for possible prosecution. It involves a more detailed and painstaking examination of tax payer's

records to check if assessable profit reported by the taxpayer is correct (Onuoha & Dada, 2016; Amah & Nwaiwu, 2018) and to gather enough evidence to either support or refute a claim of an alleged unreported taxable income or tax evasion. Tax investigation also entails an independent review of the books of accounts of an individual or corporate body often carried out when there is a suspicion of tax evasion arising from the failure to file tax returns, filing of incomplete or inaccurate returns or failure to register for tax purpose (Olaoye & Ogundipe, 2018). According to Oyedokun (2016), tax investigation is activated when there is enough predication to show that that the taxpayer has evaded tax or committed other types of tax fraud. It usually starts as an internal matter and eventually ends up in court and termed forensic investigation (Oyedokun, 2016). The investigation may centre on discovering some hidden source of revenue, pointing out to gross noncompliance or proof of fraud, tax evasion or underpayment (Onuoha & Dada, 2016).

Tax investigation differs in scope with a tax audit. According to ICAN (2014), unlike back duty audit, there is usually no limitation on the extent to which a tax payer's record can be examined during a tax investigation process. Tax investigation allows a tax payer's record to be examined beyond the six years statutorily required period. It is performed by officers with special training in investigation and sometimes with the assistance of other special investigators (police or other private investigators) (Oyedokun, 2016). Tax investigators often possess more power and authority than tax auditors. In the words of Bassey (2013) tax investigators have the power and authority to seal up the tax payer's premises, take possession of relevant books, and conduct an in-depth examination as deemed fit with the aim of gathering enough evidence to prosecute an evader and to ensure that the amount due to the government is recovered.

Adediran et al. (2013) opined that tax audit and investigation is critical to ensuring that taxpayers are always on their toes especially for those who are marginally complying and can easily be moved to the realm of tax evaders. A study by Ojonta (2011) revealed that the absence of a functional audit and investigation department was largely the bane of non-compliance and tax evasion in Enugu state (as cited in Onuoha & Dada, 2016). However, in their study of tax audit and investigation, Olaoye and Ogundipe (2018) submitted that the explanatory power of tax investigation lacks the capacity to influence tax evasion control.

2.4 Empirical Review

Several studies have been conducted on the effect of tax audit and investigation on tax evasion vis a vis revenue generation and tax compliance. Adediran et al. (2013) carried out a study on the impact of tax audit and investigation on revenue generation in Nigeria. A sample size of five hundred (500) respondents composed of staff of the FIRS and Edo State Board of Internal Revenue were selected for the study and a well-structured questionnaire was used as the data collection instrument. Data gathered was analysed using Statistical Package for Social Sciences (SPSS) and hypotheses was tested using the Pearson Product Moment Correlation (PPMC). Results of the analysis revealed that tax audit and investigation can lead to revenue generation and can also stamp out the incidences of tax evasion in the country.

Modugu and Anyaduba (2014) examined the impact of audit and other qualitative attributes on the level of compliance. A sample size of 500 respondents was selected for the study and questionnaire were distributed to staff of state board of internal revenue service and the FIRS in five geopolitical

Zones in Nigeria. The study employed ordered logistic regression technique in testing the hypotheses. They found out that there exists a positive relationship between tax audit and tax compliance. The study also found that the probability of being audited, perception on government spending, penalties and enforcement, the joint effect of audit and penalties tend to significantly influence tax compliance.

Onoja and Iwarere (2015) explored the effect of tax audit on revenue generation in the FIRS. The sample size consisted of one hundred and sixty-two respondents (162) from Staff of the FIRS, Abuja. Questionnaires were distributed and data were presented using descriptive statistics (percentages and frequencies). The hypotheses of the study were tested using Analysis of Variance (ANOVA). Results showed that there exists a positive effect of tax audit on revenue generation in Nigeria. Findings of the study were also validated using secondary data. The results revealed that tax revenue improved since the establishment of Audit and Investigation Department in 2006. The study recommended the autonomy of the audit department as stipulated in the FIRS Act to effectively carry out its function and the need for tax audit to be carried out on a routine basis to prevent tax evasion and tax avoidance.

Wuyah, et al. (2018) undertook a study to examine the impact of tax audit and investigation on Value Added Tax (VAT) generation Kaduna State, Nigeria. Data for the study was sourced through a structured questionnaire which was administered to 90 staff of FIRS, Kaduna using stratified random sampling. The study adopted descriptive statistics with the use of percentages and graphs and hypothesis of the study was tested with PPMC. Findings of the study revealed that tax audit and investigation can increase VAT generation in Kaduna state and can also reduce VAT evasion.

Amah and Nwaiwu (2018) carried out a study on tax audit practice and down south tax revenue generation in Nigeria. Using Taro Yamane sample size formula, a sample size of 242 was obtained out of a target population of 613 in Port Harcourt, Rivers state. Data was sourced from questionnaires administered and were analysed using descriptive statistics. Also, data obtained from a secondary source was tested using regression techniques. Results of the analysis lead to the rejection of the null hypothesis: Desk Tax Audit has no significant influence on Personal Income Tax in Nigeria. The study concluded that tax audit is highly applied in the FIRS and has the capacity of generating revenue for the government. The study recommended that further studies should investigate the impact of other forms of audit on revenue generation.

Consequently, Olaoye et al. (2018) conducted a study on tax audit and tax productivity in Lagos state using both primary and secondary data. The primary data was sourced from questionnaires randomly distributed to 350 staff of Lagos State Internal Revenue Service and the secondary data was sourced from the FIRS audit division in Lagos from 2001 to 2015. The hypothesis was tested using Fully Modified Least Square (FMOLS). Findings of the study revealed that field audit, desk audit and back duty audit exert a significant positive influence on tax productivity.

In a similar study, Olaoye and Ogundipe (2018) investigated the application of tax audit and investigation on tax evasion control. A sample size of one hundred and ninety-four (194) respondents was surveyed with questionnaires administered to senior cadre members of staff of the FIRS and State Inland Revenue Service in the South-Western part of Nigeria. The study

employed spearman's rank correlation (ρ) and ordered logistic regression to measure the association between variables and to test the hypotheses respectively. They discovered that desk audit and back duty audit showed significant influence on tax evasion while field audit had an insignificant influence on the control of tax evasion. Further Findings of the study revealed that tax investigation does not influence significantly the level of tax evasion control. The study, therefore, suggested that revenue agencies should frequently engage in desk and back duty audit as they both contribute largely to the control of tax evasion. According to the authors, security personnel should be provided during field audit and tax investigation to mitigate the level of confrontation faced by tax inspectors which makes the impact of field audit and tax investigation not to be felt on tax evasion.

Olaoye and Ekundayo (2019) examined the effect of tax audit on tax compliance. The study adopted descriptive survey research designed with questionnaires administered to 60 respondents randomly selected from Ekiti State Board of Internal Revenue. Data generated were analysed using correlation and multiple regression techniques. Findings of the study revealed that desk audit, field audit, back duty audit and registration audit had a positive effect on tax compliance and remittance. The corollary of these findings indicates that the increase in tax compliance due to tax audit will bring about a high yield in tax revenue and lead to a reduction in tax evasion in Ekiti state.

3.0 Methodology

3.1 Theoretical Framework and Model Specification

This study was hinged on the classical theory of tax compliance – the economic deterrence theory also known as A-S deterrence model. This theory was propounded by Allingham and Sandmo in 1972. Allingham and Sandmo's theory on tax compliance had its roots from the seminal work of Becker in 1968 which was based on the model of criminal activities and the article of Tulkens & Jacqueline (1971) on delinquency cost and the optimal allocation of private and public expenditure.

The A-S deterrence model was centered on the principle that tax evasion is seen as a rational utility maximization strategy employed by taxpayers when the benefits of such tax evasion outweigh the cost of being audited, detected and fined. The model assumes that taxpayers' behaviour is shaped by audit probability, fines, tax rate and income. Allingham and Sandmo (1972) presented two strategies that shape a tax payer's compliance behaviour. These strategies include: (1) to pay tax according to actual or real income or (2) to declare less income and consequently pay less tax. Allingham and Sandmo (1972) argued that the decision of taxpayers to select between the two strategies depends greatly on the likelihood of being audited. Hence, a rational taxpayer would opt for the second strategy if the likelihood of being audited is low; however, if the likelihood of being audited is high, the taxpayer would opt for the first strategy.

The A-S model has been empirically tested to validate the abstraction of reality posited on how the increase in audit probability or fines could increase tax compliance (Adediran, et al., 2013; Modugu and Anyaduba, 2014). However, some studies were found to be inconsistent with the theory, noting that an increase in tax audit would not necessarily increase compliance. Elffers (2000), Braithwaith (2003) cited in Oyedokun (2016) argued that if deterrence (that is the probability of detection and sanction) would be the most significant variable in explaining

compliance, rational individuals in most societies of the world will be non-compliant because deterrence is low. Notwithstanding, Folayan and Adeniyi (2018) maintained that the model gives a sensible result that compliance is based on enforcement and its certain to show an increase in compliance with adequate detection, penalty and frequency of audit and verification. It is therefore expected that the application of tax audit and investigation will induce taxpayers into resisting any form of non-compliant behaviour thereby reducing tax evasion.

Flowing from the Economic deterrence theory, we adapted the model of Olaoye and Ogundipe (2018). Their model is stated below;

$$\text{Tax Evasion Control (TAEVAC)} = f(\text{Tax Audit and Investigation}) \dots \dots \dots (1)$$

$$\text{Tax Evasion Control} = f(\text{Desk Audit, Field Audit, Back Duty Audit, Tax Investigation}) \dots \dots (2)$$

$$\text{TAEVAC} = a_0 + a_1\text{DEKAUD} + a_2\text{FIAUD} + a_3\text{BAKAUD} + a_4\text{TAXINV} + \mu \dots \dots \dots (3)$$

The model is therefore modified as presented below

$$\text{TE} = \beta_0 + \beta_1\text{DA} + \beta_2\text{FA} + \beta_3\text{BA} + \beta_4\text{TI} + \mu \dots \dots \dots (4)$$

Where:

TE = Tax Evasion

DA = Desk Audit

FA = Field Audit

BA = Back-duty Audit

TI = Tax Investigation

$\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficients

U = Error Term

A priori expectations in line with extant literature to be $\beta_1, \beta_2, \beta_3, \beta_4 < 0$

3.2 Methodology

This study adopted a survey research design using a questionnaire built on a five (5) point Likert scale (ranging from strongly agreed, agreed, undecided, disagreed and strongly disagreed) to gather information on the subject matter under investigation. The population of the study was made up of all staff of the FIRS with their corresponding SIRS in Nigeria. However, the target population was limited to one-hundred nineteen (119) staff consisting of twenty-two (22) staff of the FIRS office and ninety-two (92) staff of Bayelsa State Internal Revenue Service (BSIRS) in Yenagoa, Bayelsa state as at January 2019. The study applied Yamane's (1967) sample size formula size which yielded a sample size of ninety-two (92) respondents. Stratified random sampling technique and random sampling technique was used to select our respondents. Accordingly, seventeen (17) questionnaires were randomly distributed to FIRS staff while seventy-five (75) questionnaires were randomly distributed to respondents from BSIRS. The data collected was analysed using

descriptive and inferential statistics. Kendall Tau correlation coefficients and the order logistic Regression was employed as an inferential statistic in the study. The justification for using The Kendall Tau correlation coefficients was because our data are not normally distributed and our sample size is small (Pallant, 2008). The ordered logistic regression was used to test our hypotheses because it predicts an ordinal dependent variable given one or more independent variables presented on a Likert scale (Greene, 2012).

4.0 Data Analysis, Interpretation and Discussion of Findings

Table 1: No of Questionnaires Retrieved

Questionnaire administered	Questionnaire Retrieved	Percentage
92	86	93%

Source: Researchers Computation (2018)

Table 1 above depicts the total number of questionnaires administered and retrieved for the study. A total of ninety-two questionnaire was administered and eighty-six was successfully retrieved, representing a response rate of 93%.

Table 2: Demographics of Respondents

	Demographics		Frequency	Percentage (%)	Total (%)
Q1	Gender	Male	52	57	100
		Female	34	43	
Q2	Age	Less than 20	0	0	100
		21-30	7	8.14	
		31 – 40	22	25.58	
		41-50	40	46.51	
		Above50	17	19.77	
Q3	Highest Educational Qualification	PhD			100
		Master's Degree	14	16.28	
		First-Degree/HND	31	36.05	
			41	47.67	
Q4	Professional Affiliations	CITN	25	29.07	100
		ANAN	23	26.74	
		ICAN	16	18.61	
		Others	22	25.58	
5	Work Experience	1-5 years	12	13.95	100
		6-10 years	33	38.37	
		11- 20 years	31	36.05	
		21 to above	10	11.63	

Source: Researchers Computation (2019)

The result in table 2 above captures descriptive statistics for the study. From the table, the gender of respondents was mostly characterized by the male totaling 52 (57%), while the female was 34 (43%). None of the respondents was below the age of 20. Majority of the respondents fell between

the age ranges of 41 to 50. On the highest level of education, the table showed 14 respondents representing 16.28% of the respondents have PhD as their highest qualification, while 41 respondents representing 47.67% have first degree/HND as their highest educational qualification. The table also showed that approximately 29% of the respondents had professional qualification of CITN while approximately 26%, 18%, and 25% had professional qualification of ANAN, ICAN and other qualifications respectively. The work experience of our respondents was also considered. From the table above, 12 (13.95%) respondents had work experience of 1-5 years, 33 (38.37%) respondents had work experience of 6-10 years, 31 (36.05%) respondents had work experience of 11-20 years, while 10 (11.63%) had work experience of above 21 years.

Table 3: Reliability Statistics for each variable

Variables	No. of Items	Cronbach's Alpha
TAX EVASION	5	.712
DESK AUDIT	3	.703
FIELD AUDIT	3	.762
BACK-DUTY AUDIT	3	.721
TAX INVESTIGATION	3	.709
ALL VARIABLES	17	.720

Source: Researchers Computation (2019)

The Cronbach's Alpha test for internal consistency was used to ascertain the reliability of our research instrument. The test examines the properties of measurement and the items that compose the scale. As seen in Table 5 below, the result yielded a Cronbach Alpha statistic coefficient of above .700. George and Mallery (2003), Pallant (2008) recommended that a Cronbach Alpha statistic of .700 is acceptable. Leaning on this, we can say that our research instrument has a high level of internal consistency.

Table 4: Correlation Matrix

	TE	DA	FA	BA	TI
TE	1.000	-.221*	-.374**	-.300**	-.403**
DA	-.221*	1.000	-.316**	.078	-.042
FA	-.374**	-.316**	1.000	.039	.376**
BA	-.300**	.078	.039	1.000	-.227*
TI	-.403**	-.042	.376**	-.227*	1.000

*. Correlation is significant at the 0.05 level (2-tailed).

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

Source: Researchers Computation (2019)

We employed the Kendall Tau correlation to examine association between the dependent and independent variables of the study. The Cohen's (1998) guideline, $r = 0.10$ to 0.29 for a weak correlation, $r = 0.30$ to 0.49 for a moderate correlation, $r = 0.50$ to 1.0 for a strong correlation was

adopted for interpreting the result of the analysis. Desk audit exhibited a weak and negative correlation with tax evasion ($\tau_b = -.221$), Field audit showed a moderate and negative correlation with tax evasion ($\tau_b = -.374$), Back duty audit exhibited a moderate and negative correlation with tax evasion ($\tau_b = -.300$) and Tax investigation showed a moderate and negative correlation with tax evasion ($\tau_b = -.403$). All correlation coefficient was below the threshold of 0.80. Hence, multicollinearity is not an issue in our model.

Table 5: Regression Output

Dependent Variable: TE
 Method: ML - Ordered Logit (Quadratic hill climbing)

Variable	Coefficient	Std. Error	z-Statistic	Prob.
BA	-0.913516	0.210787	-4.333833	0.0000
FA	-2.141895	0.469499	-4.562085	0.0000
DA	-0.950644	0.214566	-4.430546	0.0000
TI	-0.326435	0.158596	-2.058279	0.0396
Limit Points				
LIMIT_8:C(5)	-53.73253	9.662548	-5.560907	0.0000
LIMIT_10:C(6)	-49.40462	9.057008	-5.454849	0.0000
LIMIT_15:C(7)	-45.33503	8.381995	-5.408620	0.0000
Pseudo R-squared	0.508192	Akaike info criterion	1.259277	
Schwarz criterion	1.459049	Log likelihood	-47.14890	
Hannan-Quinn criter.	1.339676	Restr. log likelihood	-95.86847	
LR statistic	97.43914	Avg. log likelihood	-0.548243	
Prob(LR statistic)	0.000000			

Source: Researchers Computation (2019)

Interpretation of Result

The result of the ordered logistic regression revealed that there exist a significant and negative relationship between desk audit and tax evasion $z(1, 86) = -4.3338$, $\beta_1 = -0.9135$, $p = 0.000$. Similarly, field audit exhibited a negative and significant relationship with tax evasion $z(1, 86) = -4.5620$, $\beta_2 = -2.1418$, $p = 0.000$. It was also observed that a negative and significant relationship exist between back-duty audit and tax evasion $z(1, 86) = -4.4305$, $\beta_3 = -0.9506$, $p = 0.000$. Lastly, tax investigation exhibited a negative and significant relationship with tax evasion $z(1, 86) = -2.0582$, $\beta_4 = -0.3264$, $p = 0.039$. Hence, we fail to accept the null hypothesis that desk audit has no significant relationship with tax evasion; field audit has no significant relationship with tax evasion; back-duty audit has no significant relationship with tax evasion; and tax investigation has significant relationship with tax evasion.

Further, the Pseudo R-squared of 0.508 suggests that all independent variables (DA, FA, BA & TI) jointly accounts for about 51% of the systematic variation in the dependent variable (TE). This implies that about 49% of the observed variation in the dependent variable (TE) is accounted for

by factors not depicted in the model. The LR statistics of 97.4391 and associated probability value of 0.0000 indicates that the model is linear and significant in explaining the dependent variable.

Discussion of Findings

The objective of this study was to determine the impact of tax audit and investigation on tax evasion in Bayelsa State. The study was hinged on the classical theory of tax compliance of Allingham and Samdmo, culminating into model specification where tax audit (desk audit, field audit, back-duty) and tax investigation was regressed against tax evasion. The result of the analysis revealed that all independent variables exhibited a negative and significant relationship with tax evasion. Hence, all hypothesis stated was rejected at 0.05 level of significance suggesting that tax audit and investigation has a significant impact on tax evasion. The implication of this finding suggests that the tax audit and investigation can deter tax evasion. That is, when tax audit is intensified, taxpayers' attitude inimical to tax compliance will be reduced. Similarly, when cases of evasion are investigated and prosecuted, it sends a strong deterrence message capable of reducing the level of tax evasion amongst taxpayers. This finding is consistent with works of Adediran et al. (2013), Onoja and Iwarere (2015), and Wuyah et al. (2018) who found that tax audit and investigation can reduce tax evasion and consequently increase the level of tax revenue generated in the country.

Specifically, the study found that desk audit exerts a negative impact on tax evasion. This implies that an examination of taxpayers' records when filed or in the confines of tax authorities is capable of identifying and preventing tax evasion. This is in line with the findings of Modugu and Anyaduba (2014) who found a positive relative relationship between tax audit and the level of tax compliance. According to the authors, when tax auditors are informed that their returns will be closely examined, their level of compliance will be affected, thus, deterring them from evasive behaviours. The finding of this study was also supported by Nwaiwu (2018), Olaoye et al. (2018), Olaoye and Ogundipe (2018), and Olaoye and Ekundayo (2019) who found that increase in desk audit influence compliant attitude and increases the level of tax revenue.

Similarly, field audit also showed a negative and significant impact on tax evasion. This suggests that carrying out a physical examination of taxpayers claims in their premises can deter tax evasion and reinforce a compliant attitude. This finding is in tandem with the works of Olaoye et al. (2018) and Olaoye and Ekundayo (2019) but in contrast with the works Olaoye and Ogundipe (2018) who opined that the level of confrontation faced by field auditors during audit exercise limit their effectiveness; hence, the impact of field audit is not felt on tax evasion control.

Moreover, back duty audit exhibited a significant negative impact on tax evasion, suggesting, that the more intensified an audit, the limited chances that tax evaders will go undetected and remain non-compliant. This is consistent with the findings of Olaoye et al. (2018), Olaoye and Ekundayo (2019), and Olaoye and Ogundipe (2018) who found a positive and significant influence of back duty audit on tax compliance.

Lastly, tax investigation showed a significant negative impact on tax evasion. This suggests that pursuing tax evaders criminally is capable of deterring evasive behaviour. Tax investigation ensures that tax evaders are prosecuted and when found guilty are left to face the law. This does

not only act as a deterrence measure but also ensures that amount due to the government is collected as opposed to when a case is pursued civilly or when tax evasion offences are compounded (Olokooba et al., 2018). This finding, however, deviates from the findings of Olaoye and Ogundipe (2018) who found an insignificant influence of tax investigation on tax evasion control. This could be as a result of the cost implication and time associated with pursuing an evasion case in court. Hence, a statement made by the Executive Chairman of the Bayelsa State Board of Internal Revenue, Dr. Nimbofa Ayawei confirmed that amount of resources that goes into pursuing evasion cases is a deadweight; notwithstanding, through investigation and litigation tax revenue lost to evasion has been recovered and helped improved compliance (The Nations, 2018).

5.0 Conclusion and Recommendation

Tax is an important source of government revenue. As such, the government must adopt strategies that will promote a sustainable level of tax revenue and avoid leakages that will defer government developmental projects. The study found that tax audit and investigation are important compliant tools that can reduce the level of tax evasion and increase government revenue. Specifically, the study found that tax audit in the form of a desk audit, field audit and back duty audit is capable of reducing tax evasion in Bayelsa state. Similarly, it was also revealed that tax investigation assert a significant influence on tax evasion, suggesting, that the more tax evaders are investigated and prosecuted for their fraudulent act, less evasive behaviours will be recorded amongst taxpayers.

In line with the above, we recommend that tax audit and investigation be continuously applied by relevant tax authorities in Bayelsa State. Specifically,

1. Tax audit should be carried out on a routine basis to serve as a check and a preventive tool for tax evasion.
2. Emphasis should be placed on ethics, such that tax auditors embarking on field audit will perform their duties diligently and avoid any form of collusive acts that may result in loss of revenue to the government.
3. It is important taxpayers are adequately profiled and selected for audit to avoid inefficiencies and audit delays.
4. Lastly, tax evaders and abettors should be investigated and prosecuted to ensure that revenue due to the government is not lost to evasion.

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Appendix

Dependent Variable: TE				
Method: ML - Ordered Logit (Quadratic hill climbing)				
Date: 10/19/19 Time: 21:52				
Sample: 1 86				
Included observations: 86				
Number of ordered indicator values: 4				
Convergence achieved after 9 iterations				
Covariance matrix computed using second derivatives				
Variable	Coefficient	Std. Error	z-Statistic	Prob.
BA	-0.913516	0.210787	-4.333833	0.0000
FA	-2.141895	0.469499	-4.562085	0.0000
DA	-0.950644	0.214566	-4.430546	0.0000
TI	-0.326435	0.158596	-2.058279	0.0396
	Limit Points			
LIMIT_8:C(5)	-53.73253	9.662548	-5.560907	0.0000
LIMIT_10:C(6)	-49.40462	9.057008	-5.454849	0.0000
LIMIT_15:C(7)	-45.33503	8.381995	-5.408620	0.0000
Pseudo R-squared	0.508192	Akaike info criterion		1.259277

Schwarz criterion	1.459049	Log likelihood	-47.14890
Hannan-Quinn criter.	1.339676	Restr. log likelihood	-95.86847
LR statistic	97.43914	Avg. log likelihood	-0.548243
Prob(LR statistic)	0.000000		

Correlations

			TE	DA	FA	BA	TI
Kendall's tau_b	TE	Correlation	1.00	-	-	-	-
		Coefficient		.221*	.374**	.300**	.403**
		Sig. (2-tailed)		.015	.000	.002	.000
		N	86	86	86	86	86
DA	DA	Correlation	-.221*	1.00	-	.078	-
		Coefficient			.316**		.042
		Sig. (2-tailed)		.015	.000	.376	.626
		N	86	86	86	86	86
FA	FA	Correlation	-.374**	-.316**	1.00	.039	.376**
		Coefficient					
		Sig. (2-tailed)		.000	.000	.669	.000
		N	86	86	86	86	86
BA	BA	Correlation	-.300**	.078	.039	1.00	-.227*
		Coefficient					
		Sig. (2-tailed)		.002	.379	.669	
		N	86	86	86	86	86
TI	TI	Correlation	-.403**	-.042	.376**	-.227*	1.00
		Coefficient					
		Sig. (2-tailed)		.000	.626	.013	
		N	86	86	86	86	86

*. Correlation is significant at the 0.05 level (2-tailed).

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