Tax Audit and Tax Revenue: An Empirical Study of Federal Inland Revenue Service

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Abstract

This study examined audit tax and tax revenue in Nigeria by means of a causal study design on a population twenty six (26) Federal Inland Revenue Service (FIRS), field offices in south south geographical location of Nigeria. Questionnaire was distributed to three (3) management staff from each of the 26 FIRS field offices in south south Nigeria, given a total of 78 respondents that constitutes the respondents of the study. Data for analysis was collected through primary and secondary sources. Primary data was collected through questionnaire to respondents, while secondary data was collected from FIRS Planning, Research and Statistics Department, Central Bank of Nigeria (CBN) statistical bulletin, articles, magazines and other published studies for the period covering 2007-2019. A total of 78 copies of the questionnaire were produced and distributed, of which 73 copies (93.59%) were successfully retrieved. However, out of the 73 copies that were returned only 67 copies (85.90%) were valid and used for the analysis. The simple linear regression was used for analysis. The results revealed that, tax audit statistically and significantly has effect on petroleum profit tax, company's income tax and value added tax. The study therefore concludes that, tax audit has positive significant effect on tax revenue in Federal Inland Revenue Service of Nigeria, and recommends that the Federal Inland Revenue Service should encourage, strengthen and give more attention to the tax audit department, focus more on the audit activities of the service. This will deter taxpayer's against non-compliance and discourage tax evasion

Key words: *Companies income tax, Petroleum profit tax, Tax audit, Vaue added tax,*

INTRODUCTION

Revenue generated from taxes in Nigeria has been very low over the years. It is not new that the relevance of internally generated revenue (in effect, taxes) to the Nigeria economy has increased considerably since the oil and gas sector fell on hard times. Aibagbee and Balogun (2015). In order to keep the economy afloat the Federal Government has, through its revenue collection agency – the Federal Inland Revenue Service (FIRS), initiated several measures to increase revenue through tax collectors. This method varies from changing the prevailing tax practices and improving tax administration; to establishing new levies and taxes. Although some are worth-wile, but others have proven limited in practicability and the rest, flat out ineffective.

The search for a sustainable source of public funds has brought taxation to the forefront of public discourse and attention. A review of the country's tax revenue position and other relevant statistics indicates the low level of tax compliance in Nigeria. The Federal Inland Revenue Service report reveals that the country's total tax collection in 2019 was 5.26 trillion naira ($13.5 billion). Assuming this amount is associated to income tax from the 3.1 million registered business in Nigeria (Corporate Affairs Commission 2019), this will bring average tax payment per business to 1.710 (less than $5). This is an abnormal figure considering the tax payments by publicly listed companies and the remittances from the oil and gas sector, and for a country where company pay a minimum tax irrespective of their profit. Tax audit is therefoe a veritable source of facilitating tax compliance.

Tax audit is an additional audit to the statutory audit and is carried out by tax officials from a relevant tax authority. This is not the same as the statutory audit with respect to the requirement of the Company and Allied Matter Act (CAMA) 1990 (as amended). It should also be noted that the criteria for selecting cases for tax audit include persistent loses, nil tax returns, refund cases, non-submission of returns, low tax yield, suspicion of tax avoidance, fraud or evasion, transfer mispricing, thin capitalization and most often when the taxpayers request for tax clearance certificate among others (Bitrus, 2014; Okonkwo, 2014; Oyedokun, 2014).

Tax audit is therefore a means of ensuring compliance with the tax laws. The primary purpose of tax audit is to maintain the confidence in the integrity of the self-assessment system. It helps to improve voluntary compliance by detecting and bring to book those who do not pay the correct amount of tax.Kircher (2008) further said that tax audit is a process where the internal revenue service tries to confirm the numbers that you have put on your tax return. In other words, tax audit is an inspection of a taxpayer's business records and financial affairs to ensure that the amount of tax reported and paid are in accordance with tax laws and regulations.

Tax audit in Nigeria is a term which embraces a variety of sectors. It simply means the advanced part of auditing practice that involves examination of books of account in other to check if the assessable profit showed by the tax payer is correct. Tax audit just like financial audit involves the gathering of information and processing it for determining the level of compliance of an organization with tax laws of the territory. For a successful audit, it is necessary that the auditor organizes his work in such a way that the assignment is accomplished completely and efficiently.One of the cardinal principles governing the tax audit program is that each line of grade or business should receive at least a nominal amount of audit attention. The selection of times for audit is management decision and criteria used vary from time to time (Ola, 1999). The idea of tax audit became known through Lagos state where monitoring agents were appointed to carry out tax audit on government behalf. These monitoring agents mostly Chartered Accountants are performing the function of carrying out tax audit of PAYE.

Over the years, wide tax gap has been major constraints to tax revenue. Tax gap has been described as the difference between the total amounts of taxes paid voluntarily on time and actual tax liabilities which are suppose to have been paid for the same period with little or no much effort (John et al, 2012). According to PriceaterhouseCoopers (PwC) (2018) report, only 4% of people in the tax net file returns as businesses or high net worth individuals, 96% were employees who remit taxes by Pay as you earn (PAYE), and this accounted for about 75% of total internally generated revenue.

Akintoye and Tashie (2013), examined the effect of Tax Compliance on economic growth and development in Nigeria. Tax compliance was proxied on willingness to pay tax. A comparative analysis of willingness to pay taxes in two (2) large states of Nigeria, Lagos and Oyo was presented. Similarly, Abubakari and Christopher (2013), carried out a study on evaluating taxpayers' attitude and its influence on tax compliance decisions in Tamale, Ghana. Government accountability and transparency were used to measure tax compliance decision, while levels of understanding of the tax laws were used as proxy for taxpayer's attitude. Survey responses from questionnaire to operators of SMEs in Tamale, were quantitatively analysed.

Kiabel and Nwokah (2009) examined boosting revenue generation by state governments in Nigeria. The argument was centered on the legality of the appointment of tax consultants, their modes of operation and the quantum of internal revenue generated by them among others. After a critical review of the various shades of opinion and the facts on ground, they suggested that external tax consultants should be retained by state governments and indeed by all tiers of government in Nigeria.

Amos et al, (2019), recently examined the effect of tax administration on revenue generation in Nigeria.Data relating to the study were obtained from 187 copies ofquestionnaires administered to staff of the Benue State Internal Revenue Service (BIRS).Electronic tax payment system was used as proxy for tax administration while widened tax bracket and lessening of one-time payment was used to measure revenue generation in Benue state.

By and large, the studies cited above did not consider south south geographical location and the revenue generation activities of FIRS in the region as examined in this study. South south Nigeria provides the economic mainstay of the country; oil and gas in addition to other key resources, with potential huge investment opportunities in tourism and agriculture. The region also makes up a significant number of the people in Nigeria's population.The point of departure in this study is therefore to establish the effect of tax audit on tax revenue using south south Nigeria as the geographical location of the study.

LITERATURE REVIEW AND HYPOTHESES

Theoretical Underpinning

Theory of Allingham and Sandmo

Theory of Allingham and Sandmo (1972), known as the A-S model is a model of tax compliance. This theory focuses on some of the determinants that influence the likelihood of the compliance of tax payers in Nigeria. The theory explores the relationship between risk appetite of the tax payer and the willingness to pay tax. In the A-S Model, the decision to declare tax to the tax authority is associated with a lot of uncertainties. They opined that when an individual does not disclose his taxable income fully to the relevant tax authorities it does not immediately imply sanctions, such as interest and other forms of fines or penalties imposed by the relevant tax authority. The taxpayer has two strategic choices, first, the taxpayer may declare his actual income or secondly the taxpayer may report an income lower than what it ought to be. If the taxpayer decides to report lower than the real income then he has to consider

if he will be audited by the relevant tax authorities which will determine his payoff. If the taxpayer will be audited; then he adopts the first strategy otherwise, he will be worse-off.
The A-S model assumes that the behavior of the taxpayers follows Von Neumann-Morgenstern assumptions of behavior under conditions of uncertainty. Ceteris paribus, a rational taxpayer is usually not willing to take risk; the taxpayer is usually tax adverse. In tax related activities, we have the disclosed income and undisclosed income. The undisclosed income is usually higher than the disclosed income which is the income usually communicated to the tax authorities and which is generally underreported. Where, the tax authority finds out that the taxpayer has reported less than his actual income then he is going to be charged a penalty for non-disclosure. He is going to pay a penalty tax rate which is charged on the income not disclosed.

The Concept of Tax Audit
Different scholars have defined tax audit in various ways. OECD (2006) views tax audit as a means of confirmation whether a tax payer assessed and reported his/her tax liability correctly and fulfilled other obligation. According to Okonkwo (2014) as cited by Onuoha and Dada (2016) defines tax audit as an independent examination of accounts, tax returns, tax payments and other records of a taxpayer to confirm compliance with tax laws, rules and regulations and accuracy and correctness of tax paid, adhering to relevant generally accepted accounting principles and standards. Jemaiyo and Mutai (2016) defined tax audit as an examination of an individual or organization's tax report by the relevant tax authorities in order to ascertain compliance with applicable tax laws and regulations of the state.

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

Tax audit is therefore a means of ensuring compliance with the tax laws. The primary purpose of tax audit is to maintain the confidence in the integrity of the self-assessment system. It helps to improve voluntary compliance by detecting and bring to book those who do not pay the correct amount of tax.Kircher (2008) further said that tax audit is a process where the internal revenue service tries to confirm the numbers that you have put on your tax return. In other words, tax audit is an inspection of a taxpayer's business records and financial affairs to ensure that the amount of tax reported and paid are in accordance with tax laws and regulations.

The Concept of Tax Revenue
Revenue is income received from all activities engaged in by the receiving entity.Kiabel (2014). It is thus, the entire amount received by the government from sources within and outside the government entity. Several options are available for raising fund for bidding

resources away from other sectors of the economy and from other claimants to undertake their activities (Soyode&Kajola, 2006). The options include oil revenue, taxes, non-taxes revenue such as fees, levies, charges, property and investment income, domestic and foreign borrowing including loans from the multinational institutions and foreign grants.Revenue according to Adesoji and Chike (2013) is the funds required by the government to finance its numerous activities and obligations to its citizens. These funds are generated from different sources such as taxes, borrowing, fine, fees etc. Similarly, government revenue includes tax collections, charges and miscellaneous revenues, utility and insurance trust revenue. Revenue generation is thus an inevitable tool in governance and this has taken different dimensions in different parts of the world. The excruciating effects of global economic crisis have forced many countries to depend more on tax systems to help them secure a long term financial stability.

According to Kiabel (2014), Government revenue encompasses the entire gamut of income which is realized and available for expenditure by the government within a given fiscal year. Therefore it is not all forms of revenue obtained by government from the public that constitute a tax. It means then that a tax is only one form or source of government revenue. Thus, revenue generation is regarded as the primary and most important role of taxation. There are other forms or sources of government revenue that we need to differentiate from taxes. These other revenue sources are not usually income or transaction based but may be imposed on certain category of persons or activities within a particular area. These other internally generated revenue items include: charges, fee, fines, penalty, rates and levies.''This study adopts petroleum profit tax, company income tax and value added tax as measures of tax revenue.

Petroleum Profit Tax Revenue

The Petroleum Profit Tax is regulated by the Petroleum Profit Tax Act of 1959 as amended by the Petroleum Profit Tax Act of 2007. Although the initial law was passed in 1959 to capture the first oil export made in that year (Nwadighoha, 2007). Section 8 of Petroleum Profit Tax Act (PPTA) states that every industry engaged in petroleum operations is under an obligation to render return, together with properly annual audited accounts and computations, within a specified time after the end of its accounting period. Petroleum profit tax involves the charging of tax on the incomes accruing from petroleum operations (Nwezeaku, 2005). He noted that the importance of petroleum to the Profitability of oil and gas firms in Nigeria gave rise to the enactment of a different law regulating the taxation of incomes from petroleum operations. The petroleum profit tax is charged, assessed and payable upon the profits of each accounting period of any industries engaged in petroleum operations during any such accounting period, usually one year January to December (Anyanwu, 1993).

Oremade (2006), indicated that for petroleum profit tax purposes, crude oil sales is valued at the prices actually realized by the oil producing industries in the world oil market. On the other hand, this value has to be compared with the value at the posted price and if the posted price is higher, tax is then based on the posted price. Sales of crude oil for local refining and sales of gas are valued for petroleum profit tax purposes at the actual amount realized on sale. According Ofe et al (2008), the administration of PPTA is under the care and management of the Federal Board of Inland Revenue.

Companies Income Tax Revenue

All companies in Nigeria are liable to pay companies income tax on their global profits accruing in, brought into, derived from or received in Nigeria. A company duly registered in accordance with the provision of the Companies and Allied Matters Act (CAMA) or any enactment replaced by it is what the Act recognizes as a company in Nigeria. John (2011). Although, CAMA defines a foreign company to mean company incorporated elsewhere than in Nigeria, it does not recognize its existence in Nigeria for business activities. It only defines it for the purpose of identifying it to comply with the mandatory incorporation processes before carrying on business in Nigeria and to benefit from exemption from registration(John,2011). Section 54(1) CAMA provides that: Subject to Sections 56 - 59 of this Act, every foreign company which, before or after the commencement of this Act, was incorporated outside Nigeria, and having the intention of carrying on business in Nigeria shall take all steps necessary to obtain incorporation as a separate entity in Nigeria for that purpose, but until so incorporated the foreign company shall not carry on business in Nigeria or exercise any of the powers of a registered company and shall not have a place of business or an address for service of documents or processes in Nigeria for any purpose other than the receipt of notices and other documents as matters preliminary to incorporation under this Act.

Value Added Tax Revenue

Bird (2005) defined value added tax as a multi stage tax imposed on the value added to goods and services as they proceed through various stages of production and distribution and to services as they are rendered, which is eventually borne by the final consumer but collected at each stage of production and contribution chain. This definition brings out the three characteristics of value added tax which are: VAT is consumer tax, VAT incidence is on the final consumer, and VAT is a multi-stage tax. In the case of manufactured items, this could be at the primary producer, manufacturer, wholesaler and retailer stages. It is ultimately borne by the consumer who being registered for VAT purpose is unable to reclaim it. All exports are zero rated for VAT, i.e. no VAT is payable on exports. Also, VAT is payable in the currency of the transaction under which goods or services are exchanged. The introduction of VAT by the Federal Government of Nigeria in January, 1993, was believed by many Nigerians that the tax was introduced as a means of avoiding taking loans from international agencies (Ochei, 2010). According to analysts, the tax was intended to be a super tax to eradicate completely many other taxes related on goods and services.

Owolabi and Okwu (2011), studied value added tax and development of Lagos State economy. They used simple regression analysis to evaluate the effect of value added tax revenue to the economic growth of Nigeria. Their analytical results showed that value added tax revenue contributes to the development of infrastructural development, environmental management, education sector development, youth and social development, agricultural sector development and transportation sector development.Chinwe (2013) evolved survey research design to investigate the value added tax remittance of developing countries. These findings revealed that there was continuous decrease in revenue returns. The study therefore recommended that the

Nigerian government should make adequate provision for retrieving the proceeds of Value Added Tax and other agents of collection.

Empirical Review

Jean (2018) examined the effects of tax audit on revenue collection in Rwanda. The study is limited to the 110 respondent of Headquarter of the Rwanda Revenue Authority (RRA) in Kigali. The study adopted a descriptive approach. Both Primary and secondary data was used and then analyzed through SPSS version 21. Data analysis involved statistical computations for averages, percentages, and correlation and regression analysis. Ordinary least squares (OLS) regression method of analysis was adopted to determine the inferential statistics. It was revealed that tax audit actually has an effect to revenue collection, according to the t–tests there is significance in the correlation between tax collected before the audit and after the audit.

Nwaiwu and Macgregor (2018) examined the webometric indices of tax audit and tax revenue generation research in Nigeria, intended to improve the economic and social situation by supporting infrastructure and increasing the quality of public goods provided by the government, the situation in the country still remains fragile, and the country remains among the poor in the world. The core objective of this investigation is to empirically analyze the effect of webometric indices of tax audit and tax revenue generation in Nigeria. They concluded that tax audit has the potency to make significant contribution to tax revenue generation and recommends that in order to increase government tax revenue; there should be regular tax audit practice by tax authorities in Nigeria. Tax administrators should not concentrate only on desk tax audit but also on field tax audit and back duty tax audit so as to be able to block all leakages and increase tax compliance.

Richard (2018) examined the influence of tax audit and penalty on tax compliance paradigm of companies' income taxpayers in Nigeria. Discourse on tax in terms of audit, penalty and compliance is germane because governments at all levels depend on revenue generated through taxation to drive their programs. Cross-sectional survey design was adopted for the study. The population for the study comprised all registered corporate taxpayers in Nigeria.A total of one hundred and fifty (150) corporate taxpayers whose tax files are domiciled in Edo State were selected for this study. The selection of the sample size was based on stratified random sampling method. Copies of questionnaire were distributed to the selected companies. The questionnaire was adapted from the work of Palil (2010). To evaluate the strength of the measures used, Ordinary Least Square (OLS) regression was used for model estimation through Econometric Views (E Views) software. Findings revealed that tax audit and tax penalty have positive and significant relationships with tax compliance. It is recommended that effective tax compliance canbe achieved by increasing the frequency of tax audit andby strengthening tax penalty to serve as deterrent mechanism against non-compliance.

Amah and Nwaiwu, (2018) empirically examined the effect of tax audit practice on down south tax revenue generation in Nigeria. Both primary and secondary source of data was adopted and the data collected was analyzed using linear regression analysis and multiple regression analysis with the aid of special package for social sciences (SPSS) version 21.0 with 0.71%, the empirical results indicate that the predictor variable of tax audit practice has positive effect on criteria variable of tax revenue in Nigeria.

Jemaiyo and Mutai (2016) analyzed the determinants of tax compliance and their influence on the level of tax compliance in the real estate sector, Eldoret town-Kenya. Data collection was through questionnaire and analyzed with chi-square. This study found that tax compliance cost, tax knowledge, tax penalties and tax audit had significant effect on level of tax compliance. High tax compliance costs were a contributing factor that reduced tax compliance among real estate investors. It was thus recommended that tax compliance cost should be as minimal as possible to encourage payment of income tax.

Onoja and Iwarere (2015)explored the effects of the tax audit on revenue generation in Federal Inland RevenueService. The population of the study consists of the staff of the Federal InlandRevenue Service, Abuja, and Taro Yamane sampling technique was used to determine thesample size. The questionnaire was used to generate the data and was tested using Analysisof Variance (ANOVA). Findings revealed that: tax audit has significant effects on revenuegeneration in Federal Inland Revenue Service and tax audit has a positive relationship withthe revenue generation in Federal Inland Revenue Service.

Modugu and Anyaduba (2014) examined the impact of tax audit and other qualitative attributes on the tax compliance level of companies in Nigeria. Their findings revealed that there exists a positive relationship between tax audit and tax compliance. They recommended that the relevant authorities should seek more rational and active means of enhancing the impact of tax audits on corporate tax compliance in Nigeria.

Based on the review of literature, the following conceptual frame work was developed:

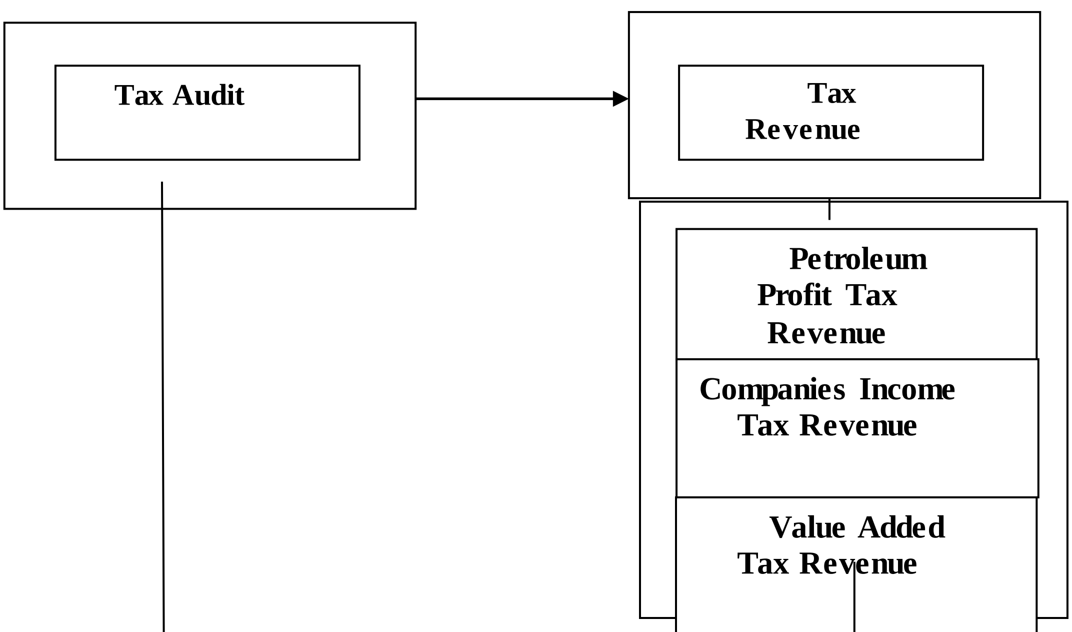

Figure 1: Conceptual Framework of the Effect of Tax Audit onTax Revenue.

Source: Designed by the Reasearcher (2022).

Research Hypotheses

In line with the objectives of this study, the following hypotheses formulated in the null form were tested;

Ho_1: There is no significant effect of tax audit on petroleum profit tax revenue in Federal Inland Revenue Service of Nigeria.

Ho_2: There is no significant effect of tax audit on companies' income tax revenue in Federal Inland Revenue Service of Nigeria.

Ho_3: There is no significant effect of tax audit on value added tax revenue in Federal Inland Revenue Service of Nigeria.

RESEARCH METHODOLOGY

This study adopteda causal study design and thepopulation of the study istwenty six (26) Federal Inland Revenue Service (FIRS), field officesinsouth south geographical location of Nigeria. (FIRS 2020). For sample size, the study took a census since the population was small. Census is a statistical method that studies all the units or members of a population. Questionnaire was distributed to three (3) management staff from each of the 26FIRS field offices in south south Nigeria, given a total of 78 respondents that constitutes the respondents of the study. Data for analysis was collected through primary and secondary sources. Primary data was collected through questionnaire to respondents from the twenty six (26) Federal Inland Revenue Service field offices in South South Nigeria while secondary data was collected from FIRS Planning, Research and Statistics Department, Central Bank of Nigeria (CBN) statistical bulletin, articles, magazines and other published studies for the period covering 2007-2019.A total of seventy eight (78) copies of questionnaire were distributed to management staff of the twenty six (26) field offices of FIRS in South SouthNigeria.The total number of questionnaire distributed was based on the sample of twenty six (26) field offices. Questions in the questionnaire were given the options of 5 point likert scale of rating (Strongly Agree), (Agree), (Undecided), (Disagree) and (Strongly Disagree).

The study adopted both descriptive and inferential statistics to analyze the primary and secondary data obtained for this study. Descriptive statistics of mean, standard deviation, bar chart and frequency distribution were used to analyze the data. Inferential statistics of linear regression was used to test the hypotheses in the study. Specifically, simple linear regression was used to ascertain the effects of the dimensions of tax compliance on the measures of petroleum tax revenue. Theanalysis of the primary and secondary data where performed with the aid of statistical package for social sciences (SPSS) version 22.0.

Models Specification

The model to be used to examine the hypotheses of the study is expressed as follows:

$$PPT = B\,0 + B\,1\,TA + \varepsilon \qquad 1.1$$

$$CIT = B\,0 + B\,1\,TA + \varepsilon \qquad 1.2$$

$$VAT = B\,0 + B\,1\,TA + \varepsilon \qquad 1.3$$

Where;

PPT = Petroleum Profit Tax

CIT = Companies' Income Tax
VAT = Value Added Tax
TA = Tax Audit

RESULTS

A total of 78 copies of the questionnaire i.e. 100% were produced and distributed by the researcher to the target respondents in the organization. Out of the 78 copies produced and administered, 73 copies i.e. 93.59% were successfully retrieved that means 5 copies (6.41%) were not retrieved by the researcher. However, out of the 73 copies that were returned, 6 copies were not properly filled, rendering them invalid. Hence, only 67 copies of 85.90% were valid and used for the analysis. Using 85.90% of questionnaire for analysis is within the acceptable region.

Analysis of the effect ofTax Auditon Petroleum Profit Tax

Table 1: Model SummaryofTax Auditon Petroleum Profit Tax

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.768[a]	.590	.553	502917.270

a. Predictors: (Constant), Tax Audit

Source: Field Survey, 2022.

As shown from the SPSS output on Table 1, the regression coefficient (R) is 0.768; which means that tax audit has astrong positive effect on petroleum profit tax. Again, the coefficient of determination (R^2) is 0.590 and R^2 adjusted is 0.553; indicating that approximately 55% of the changes in the dependent variable (petroleum profit tax) are accounted for by the independent variable (tax audit), while the remaining 45% are due to externalities.

Table 2: ANOVAofTax Auditon Petroleum Profit Tax

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4004744859371.021	1	4004744859371.021	15.834	.002[b]
	Residual	2782183586547.749	11	252925780595.250		
	Total	6786928445918.770	12			

a. Dependent Variable: Petroleum Profit Tax
b. Predictors: (Constant), Tax Audit

Source: Field Survey, 2022.

Again, the ANOVA Table i.e. Table 2 shows that tax audit statistically significantly predicts the outcome variable, petroleum profit tax at $F(1, 11) = 15.834$, $p < 0.05$, $R^2 = 0.590$. This means the regression model is a good fit for the data. That is, tax audit statistically significantly predicts petroleum profit tax.

Table 3: CoefficientsofTax Auditon Petroleum Profit Tax

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	1618091.144	710456.675		2.278	.044
	Tax Audit	275083.717	69131.186	.768	3.979	.002

a. Dependent Variable: Petroleum Profit Tax

Source: Field Survey, 2022.

From Table 3, the unstandardized coefficients indicate how much the dependent variable; petroleum profit tax varies with the independent variable tax audit. As shown on the Table, the intercept B_0 is 1618091.144, indicating the predicted value of petroleum profit tax without the contributions of tax audit, i.e. when tax audit is equal to zero. However, the slope B_1 is 275083.717, indicating that 1 unit increase in tax audit will bring about 275083.717 units increase in petroleum profit tax. Furthermore, the standard error of the estimate (ε) is 69131.186 which is the actual contribution of tax audit in petroleum profit tax. More so, the Beta value in the Standardized Coefficients is 0.768 which further confirms the regression coefficient in the model summary.

Hypothesis One

Ho_1: There is no significant effect of tax audit on petroleum profit tax in Federal Inland Revenue Service of Nigeria.

The probability value is 0.002< 0.05 which means tax audit statistically significantly predicts petroleum profit tax. In view of these results we reject the null hypothesis which states that there is no significant effect of tax audit on petroleum profit tax, and accept the alternate hypothesis. This finding has helped to answered research question four. From Table 4.22 the regression model is developed thus;

$$PPT = B_0 + B_1TA + \varepsilon$$

$$= 988612.909 + 129547.677TA + 18818.379$$

Analysis of the effect of Tax Audit and Companies' Income Tax

Table 4: Model Summaryof Tax Audit and Companies' Income Tax

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.878[a]	.771	.750	199899.202

a. Predictors: (Constant), Tax Audit

Source: Field Survey, 2022.

As shown from the SPSS output on Table 4, the regression coefficient (R) is 0.878; which means that tax audit has a very strong positive effect on company's income tax. Again, the coefficient of determination (R^2) is 0.771 and R^2 adjusted is 0.750; indicating that approximately 75% of the changes in the dependent variable (company's income tax) are accounted for by the independent variable (tax audit), while the remaining 25% are due to externalities.

Table 5: ANOVAof Tax Audit and Companies' Income Tax

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1478519695181.928	1	1478519695181.928	37.000	.000b
	Residual	439556601614.841	11	39959691055.895		
	Total	1918076296796.769	12			

a. Dependent Variable: Companies' Income Tax
b. Predictors: (Constant), Tax Audit
Source: Field Survey, 2022.

Again, the ANOVA Table i.e. Table 5 shows that tax audit statistically significantly predicts the outcome variable, companies' income tax at $F(1, 11) = 37.000$, $p < 0.05$, $R^2 = 0.771$. This means the regression model is a good fit for the data. That is, tax audit statistically significantly predicts companies' income tax.

Table 6: Coefficientsof Tax Audit and Companies' Income Tax

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	818970.403	282391.819		2.900	.014
	Tax Audit	167144.086	27478.215	.878	6.083	.000

a. Dependent Variable: Companies' Income Tax
Source: Field Survey, 2022.

From Table 6, the unstandardized coefficients indicate how much the dependent variable; company's income tax varies with the independent variable tax audit. As shown on the Table, the intercept B_0 is 818970.403, indicating the predicted value of company's income tax without the contributions of tax audit, i.e. when tax audit is equal to zero. However, the slope B_1 is 167144.086, indicating that 1 unit increase in tax audit will bring about 167144.086 units increase in company's income tax. Furthermore, the standard error of the estimate (ε) is 27478.215 which is the actual contribution of tax audit in company's income tax. More so, the Beta value in the Standardized Coefficients is 0.878 which further confirms the regression coefficient in the model summary.

Hypothesis Two

Ho_2: There is no significant effect of tax audit on companies' income tax in Federal Inland Revenue Service of Nigeria.

The probability value is 0.000< 0.05 which means tax audit statistically significantly predicts company's income tax. In view of these results we reject the null hypothesis which states that there is no significant effect of tax audit on company's income tax, and accept the alternate hypothesis. This finding has helped to answer research question five. From Table 4.25 the regression model is developed thus;

CIT = $B_0 + B_1TA + \varepsilon$

= 818970.403 + 167144.086TA + 27478.215

Analysis of the effect of Tax Audit and Value Added Tax

Table 7: Model Summaryof Tax Audit and Value Added Tax

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.836[a]	.699	.672	166562.245

a. Predictors: (Constant), Tax Audit
Source: Field Survey, 2022.

As shown from the SPSS output on Table 7, the regression coefficient (R) is 0.836; which means that tax audit has a very strong positive effect on value added tax. Again, the coefficient of determination (R^2) is 0.699 and R^2 adjusted is 0.672; indicating that approximately 67% of the changes in the dependent variable (value added tax) are accounted for by the independent variable (tax audit), while the remaining 33% are due to externalities.

Table 8: ANOVA**of Tax Audit and Value Added Tax**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	709642068675.807	1	709642068675.807	25.579	.000[b]
	Residual	305172796073.117	11	27742981461.192		
	Total	1014814864748.923	12			

a. Dependent Variable: Value Added Tax
b. Predictors: (Constant), Tax Audit
Source: Field Survey, 2022.

Again, the ANOVA Table i.e. Table 8 shows that tax audit statistically significantly predicts the outcome variable, value added tax at $F(1, 11) = 25.579$, $p < 0.05$, $R^2 = 0.699$. This means the regression model is a good fit for the data. That is, tax audit statistically significantly predicts value added tax.

Table 9: Coefficientsof Tax Audit and Value Added Tax

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	421544.070	235297.664		1.792	.101
	Tax Audit	115796.953	22895.705	.836	5.058	.000

a. Dependent Variable: Value Added Tax
Source: Field Survey, 2022.

From Table 9, the unstandardized coefficients indicate how much the dependent variable; value added tax varies with the independent variable tax audit. As shown on the Table, the intercept

B_0 is 421544.070, indicating the predicted value of value added tax without the contributions of tax audit, i.e. when tax audit is equal to zero. However, the slope B_1 is 115796.953, indicating that 1 unit increase in tax audit will bring about115796.953 units increase in value added tax. Furthermore, the standard error of the estimate (ε) is 22895.705 which is the actual contribution of tax audit in value added tax. More so, the Beta value in the Standardized Coefficients is 0.836 which further confirms the regression coefficient in the model summary.

Hypothesis Three

Ho_6: There is no significant effect of tax audit on value added tax in Federal Inland Revenue Service of Nigeria.

The probability value is 0.000 < 0.05 which means tax audit statistically significantly predicts value added tax. In view of these results we reject the null hypothesis which states that there is no significant effect of tax audit on value added tax, and accept the alternate hypothesis. This has helped to answer research question six. From Table 4.28 the regression model is developed thus;$VAT = B_0 + B_1TA + \varepsilon$

$= 421544.070 + 115796.953TA + 22895.705$

DISCUSSSION OF FINDINGS

Results of the analysis showed that the strength and direction of the effect of tax audit on petroleum profit tax is 0.768, indicating that there is a strong and positive effect between the variables. The effect is significant at 0.05 ($P = 0.002 < 0.05$) which means tax audit statistically significantly influences petroleum profit tax. . The coefficient of determination R^2 is 0.590 and R^2 adjusted is 0.553; indicating that approximately 55% of the changes in petroleum profit tax are accounted for by tax audit. More so, the analysis showed that the strength and direction of the effect of tax audit on company's income tax is 0.878, indicating that there is a very strong and positive effect between the variables. The effect is significant at 0.05 (P=0.000 <0.05)which means tax audit statistically significantly have effect on company's income tax. The coefficient of determination R^2 is 0.771 and R^2 adjusted is 0.750; indicating that approximately 75% of the changes in company's income tax are accounted for by tax audit. Again, results of the analysis revealed that the strength and direction of the effect of tax audit on value added tax is 0.836, indicating that there is a very strong and positive effect between the variables. The effect is also significant at 0.05 ($P = 0.000 < 0.05$) which means tax audit statistically significantly have affect on value added tax. The coefficient of determination R^2 is 0.699 and R^2 adjusted is 0.672; indicating that approximately 67% of the changes in value added tax are accounted for by tax audit. We therefore rejected null hypotheses four, five and six (Ho_4, Ho_5& Ho_6) and accepted the alternate hypotheses.

The findings are supported by Adediran*et al.* (2013), Onoja and Iwarere (2015), and Dublin and Wilde (1988). The findings of Adediran*et al.* (2013) revealed that tax audit and investigations can increase the revenue base of the government and can also stamp out the incidents of tax evasion in the country. According to Kiabel (2007), tax investigation involves the depth inquiry into the books of accounts, records, documents and other activities of a taxpayer by the revenue authority where there are very significant indications to suspect that tax evasion or fraud has been committed. Similarly, Onoja and Iwarere (2015) in their study explored the effects of tax audit on revenue generation in Federal Inland Revenue Service. Findings revealed that: tax audit has significant effects on revenue generation in Federal Inland Revenue Service and tax audit has a positive relationship with the revenue generation in Federal Inland Revenue Service.

Also supporting our findings is study of Dublin and Wilde (1988), an empirical analysis of federal tax auditing and compliance in USA. The study had an objective of establishing the relationship between tax audits and compliance from IRS tax returns made in 1969. Among other variables that contributed to increased tax compliance, which in turn enhanced tax revenues, Dublin and Wilde found that there was a strong deterrence effect on non-compliance. They concluded that IRS was effectively right to direct its resources to audit conductions to enhance tax revenue. This is also in conformity with the theory of Allington and Sandmo (1972) also known as the A-S model. The theory focuses on some of the determinants that influence the likelihood of compliance in Nigeria. The theory explores the relationship between risk appetite of the taxpayer and the willingness to pay tax. If the taxpayer reports a lower income instead of making full disclosure, he has to consider the possibility of being audited. If he'll be audited, then he'll adopt the choice of making full disclosure otherwise he'll be worse-off.

CONCLUSIONS AND RECOMMENDATION

The study examined the effect of tax audit on tax revenue in Nigeria, with evidence from Federal Inland Revenue Service for the periods 2007-2019. Specifically, to ascertain the extent to which tax audit, affects tax revenue. From the analyses, it was found that, there are varied degrees of positive and statistically significant effects of tax audit and the measures; indicating that the changes in petroleum profit tax, companies' income tax and value added tax respectively are accounted for by voluntary compliance. Thus; the study concludes that tax audit has positive significant effect on tax revenue in Federal Inland Revenue Service of Nigeria, and recommends that the Federal Inland Revenue Service should encourage, strengthen and give more attention to the tax audit department, focus more on the audit activities of the service. This will deter taxpayer's against non-compliance and discourage tax evasion.

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