

## Effect of Tax Audit on Compliance of Taxpayers: A case study of Katsina State Board of Inland Revenue

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### Abstract

This paper focus on the effect of tax audit on the compliance of taxpayers in the Katsina State Board of Internal Revenue. This paper adopted the survey research design, using primary data. The questionnaire was structured thematically, in line with the research hypotheses, so that the respondents can concentrate on each theme and provide focused answers. The target population of the study comprised of the entire staff of the Katsina State Board of Internal Revenue in Katsina State which aggregated to a sum of Seventy-five (75) staff. The total staffs of the board were considered for the study consisting of Seventy-five staff. Tax Remittances (TAR) is the dependent variable. Independent Variable Audit Yield (ADY) and Field Tax Audit (FDTA) are considered as having potential effect on Tax Audit. Questions were measured on a 5-point "Likert" scale ranging from strongly disagreed (1) to strongly agreed (5) and a mean was obtained to compare against the expected mean. The result on Tax Compliance proxy by Tax Remittances is found to be positively associated with Audit Yield and Field Tax Audit with a coefficient of 0.342 and statistically significant at 5% with a P-value of 0.007. This goes to prove that Audit Yield field and Tax Audit have a statistically influence on Tax Compliance in Katsina State which implies that the null hypotheses of the study are rejected.

**Keywords:** Audit Yield, Field Tax Audit, Tax compliance, Tax Remittances, Katsina Board of Internal Revenue.

### 1.0 Introduction

The development of any Country solely depends on the amount of revenue generated and applied by the government on the public infrastructure for the benefits of members of the society. No economy can sufficiently grow without adequate resources for infrastructural development and provision of power and public utilities and services (Oyebanji, 2006). Tax and tax system has proven over the years to make up fundamental components of any attempt to build countries and this is particularly the case with developing countries (McKerchar & Evans, 2009). It is in this light that Countries have sought better ways of tax administration; this has birthed the Self-Assessment System which was first introduced in some parts of Europe. It has been observed all over the world that self-assessment of taxation is the best practice in tax administration (Biber, 2010). The relevant tax authorities (RTA) that administer the tax system on behalf of the government of Nigeria (Federal Inland Revenue Board, all State Inland Revenue Board, and Local Inland Revenue Board) ordinarily accepts tax return and payments filed but seeks means and ways of confirming the accuracy and completeness of the tax returns and the adequacy of the tax paid by the taxpayer (FIRS, 2012). In line with ensuring that taxpayers have declared the true and accurate taxes due the relevant tax authorities (RTA) uses among other measures the tax audit to confirm the compliance or non-compliance of the tax payer. Where it is observed or suspected that the taxpayer failed to declare tax or disclose their income properly, such offender will be subjected to a supplemental tax plus penalty. In view of this, and the need for government to generate the desired empowering fund to provide social goods and services to the society that prompted tax-audit (Modugu & Anyaduba, 2014).

The Katsina State Internal Revenue Service (KTIRS) has embarked on a warning exercise to recover over N1 billion in debt and liabilities from erring commercial banks and other taxpayers operating in the state. However, the amount of tax to be generated is determined by the level of compliance by the taxpayers. In this regard therefore, Franzoni (1999) sees compliance to tax laws as a true reporting of the taxable income, appropriate computation of the tax payable, filing of the returns and timely payment of tax liabilities.

Tax non-compliance, mostly avoidance and evasion had made many countries consider an alternative approach that could help improve the voluntary compliance and consequently increase tax revenue (Horby,2000). The do-it-yourself mechanism commonly referred to as self-assessment system (SAS) had for long become the essential administrative approach for both individual and corporate taxations in developed countries including the United States of America (USA), Australia and the United Kingdom (UK). This same process was first introduced in Nigeria in 1994 leading to the enactment of decree no. 30 of 1996 (Iheanyi, 2014). This successfully commenced in 1998 after the decree, it was not fully institutionalized until 2011 with the adoption of tax administration (self-assessment) regulations. With the proliferation of this regulation, most experts believed that this administrative framework gained ground as it laid the formal procedure and processes for taxpayers to assess their tax liability themselves, (Alabede, Zainol-Affirm & Idris, 2011)

In a bid to enhance tax revenue through compliance, a good number of administrative tools have been adopted. Amongst such tools are tax audit mechanisms (for example mandatory industry specific audit, tax refunds) (FIRS, 2011). Since SAS is hinged on the intent of the tax payers, it is important that the RTA carry out an examination of the process and adopt appropriate deterrent approach which in most jurisdiction hovers around tax audit. In reality, tax audit is viewed as a strategy against tax payers' compliance behaviour. Tax administrators do not completely depend on the single strategy of tax audit to fight non-compliance behaviour in proportion to taxpayer's motives. Taxpayers' incentives are taken into consideration as the population of taxpayers are considered to be heterogeneous and our response to changes in circumstances is dynamic on the long run (Oyebanji, 2006). Therefore, in order to develop appropriate strategies, it seems to be expedient to analyze taxpayer's tendencies towards voluntary compliance or non-compliance behaviour. It is on this note that this study seeks to examine the effect of tax audit on tax compliance in Nigeria.

The main objective of this paper is to examine the effect of tax audit on the tax compliance in Katsina State. This study is specifically aimed to evaluate the effect of Audit Yield (ADY) on Tax Compliance and to evaluate the effect of Field Tax Audit (FDTA) on Registration of Tax Compliance in Katsina State. On the basis of the objective of the study, the hypotheses have been formulated:

HO<sub>1</sub>: Audit Yield (ADY) does not have a significant effect on Tax Compliance in Katsina State.

HO<sub>2</sub>: Field Tax Audit (FDTA) has no significant effect on Tax Compliance in Katsina State.

## 2.0 Literature Review

### *The State Board of Internal Revenue*

Tax non-compliance, mostly avoidance and evasion had made many countries consider an alternative approach that could help improve the voluntary compliance and consequently increase tax revenue (Horby, 2000). The do-it-yourself mechanism commonly referred to as self-assessment system (SAS) had for long become the essential administrative approach for both individual and corporate taxations in developed countries. This same process was first introduced in Nigeria in1994 leading to the enactment of decree no. 30 of 1996 (Iheanyi, 2014). The Katsina State Board of Internal Revenue was established

based on the Edict (1988), an Edict to establish a Board of Internal Revenue (BIR) came into effect in 1988. The Edict is in line with provision of the Personal Income Tax Act 1993. The Edict established for Katsina State a Board of Internal Revenue, composition of the Board, functions and powers of the Board, financial provisions, employment of staff of the Board and other matters connected to running of the Board (SPARC, 2014).

Other laws that regulate collection of tax and non-tax revenue in Katsina State are (SPARC, 2014);

- i. Personal Income Tax Act 1993 as amended 2011;
- ii. Stamp Duty Act;
- iii. Capital Gains Tax Act;
- iv. Katsina State Road traffic Regulation;
- v. Approved list of taxes and levies cap 21 1998

### ***Structure and Mandates of the Board***

In line with provision of Katsina State BIR Edict, The Board has an Executive Chairman, Board Secretary and Technical Committee under the Executive Chairman's office. The BIR of Katsina State has nine departments. Six of these departments perform operational activities and three perform administrative and support functions. The nine departments of the Board together with their mandates are summarized in the table below.

**Table 1: Departments and Mandates of the Board**

S/N	Name Of Department	Mandate
1	Personal Income	Assessment of Pay as You (PAYE) and Direct Taxes.
2	Fines, Fees and Charges	Controls all revenue generating agencies.
3	Road Taxes	Handles all vehicular taxes.
4	Collection	Collects all tax revenue in the States.
5	Finance and Accounts	Manages the accounts of the board.
6	Planning, Research and Statistics	Data Analysis, Monitoring and Forecasting.
7	Tax Audit	Re-assessments of tax liabilities and back duties.
8	Internal Audit	Check and Ascertain Assessments and Collections, in addition to normal internal audit functions.
9	Administration	Administration and general services functions of the board.

**Source:** *Developed by Researchers, 2022.*

Each department is headed by a director who reports to the Chairman of the Board and the Chairman reports to the Commissioner of Finance. There used to be a legal department that handled all judicial matters of the Board. As at the time of this review, there was none in existence. The Board currently refers legal matters either to the Ministry of Justice or hires private legal firms when the need arises to handle available cases.

### ***Systems and Processes***

The Personal Income Tax department maintains taxpayer's information for long periods. Although these records are usually kept manually, there seems to be some order in the way the files are kept. Taxpayers'

information retrieval is very cumbersome and lengthy. The review meeting of the PIT department showed that the department has two units as follows:

- i. Direct Assessment (DA) unit;
- ii. PAYE unit.

Each unit is headed by an Assistant Director (AD). The DA unit is further sub-divided into two sections:

- i. Assessment section;
- ii. Investigation and Intelligence section.

The Assessment section deals with tax-payers that are not captured under the PAYE system, while the investigation and intelligent section conducts investigations on existing taxpayers in the state and submits its reports to the Departmental Head for filing and subsequent action. Activities of the Assessment section are sequenced in the following order:

- October - December - Issuance of blank self-assessment forms;
- January - March - Filing of returns (completed self-assessment forms);
- April - June - Raising assessment on returns/best of judgement assessment;
- July - December - Follow-up action for collection.

The PAYE unit deals with MDAs and companies that operate the PAYE system. Both the DA and PAYE units send copies of all their assessment letters to the collection department for necessary follow-up activities to enhance collection (SPARC, 2014). The collection systems within the Katsina State BIR are a mix of manual and electronic processes. The taxpayer can choose to pay their tax through an electronic pay direct to bank. This is normally done by the larger more organized companies who are operating PAYE and by consequence a large amount of revenues are collected with minimum administration cost. Some withholding taxes are also remitted using this electronic system and again it is associated with the larger and more organized businesses that remit using the direct electronic system (SPARC, 2014). The state uses "pay-direct" platform, being powered by Interswitch Nigeria Limited to collect its Internally Generated Revenue. The platform is deployed to collect revenue by collecting banks that signed Memorandum of Understanding (MoU) with the state government. First Bank Plc serves as the lead bank under the MoU and there is other nineteen (19) collecting banks under the arrangement (SPARC, 2014).

### ***Taxpayers Compliance in Katsina State***

Revenue collections are obviously dependent on the taxpayer base and the ability (and will) of the taxpayer to comply with the tax laws which enable the BIR to make the collections. The challenges for any revenue collecting agency are many but can vary depending on the social and economic conditions dictated to the area of responsibility for the agency. The obvious challenges are (OECD, 2014): Non registration; not filing returns on time; not keeping adequate books and records; Suppressing/hiding sales; Maximizing expenses. The assessment raised is often based solely on the data as presented to the tax audit staff, however, it is based on judgment, especially when the BIR suspects that the organization did not make full disclosure of their information to the tax audit staff. The demand notice issued will always carry a 30-day window for objection within which the organization is expected to object to the assessment, but if the 30 days expires without any objection, then the demand notice is deemed conclusive and final, and then the organization has no choice than to pay the amount on the demand notice (SPARC, 2014).

### ***The Concept of Tax Audit***

Hornby (2000) defines Tax as money that you have to pay to the government so that it can finance its public services. The Association of Certified Chartered Accountants (2009) defined an audit as an exercise

which provides assurance to the shareholders and other stakeholders of a company on the financial statements because it is independent and impartial. Tax audit can therefore be defined 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 state (Kircher, 2008). Tax audit is the process in which the relevant tax authority assesses the reports of an individual or company to see if all income, deduction, and/or credits reported accurately reflects reality. Tax audit is done to ensure that taxpayers pay their full tax liability. Tax Audit is a type of Forensic Audit performed by the government appointed auditors, in order to ascertain if the appropriate taxes have been paid in full by the taxpayer (Bello, 2001).

### *Concept of Tax Compliance*

According to Verboon and Dijke (2007) tax compliance refers to the willingness of individuals to comply with relevant tax authorities by paying their taxes (Badara, 2012). Tax Compliance is the degree to which a taxpayer complies or fails to comply with the tax rules in his country, for example paying the tax due, declaring appropriate income and filing accurate returns. Sarker (2003) also reported that tax compliance is the degree to which a taxpayer complies (or fails to comply) with the tax rules of his country. Theoretically the above definitions of tax compliance are acceptable. However, when it comes to the obligations imposed on them by law, taxpayers are not always compliant. Most taxpayers are not paying their tax liabilities voluntary either because of lack of understanding the benefits of being compliant or because of the intrusive tax laws in the country. In Nigeria some of the reasons behind non-tax compliance as opined by Usman (2008) are stated as follows:

- i. Lack of sufficient tax facilities for the relevant tax authorities.
- ii. Influential tax dodgers are honoured and respected.
- iii. Numerous taxes and levies.
- iv. Tax administration system and Tax laws.

Tax compliance may be seen in terms of tax avoidance and tax evasion. The two activities are usually distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures. Some commentators see non-compliance only as an evasion problem; this does not seem to capture the full nature of the problem. Clearly tax evasion is a form of non-compliance. However, if taxpayers go to undue lengths to reduce their liability this could hardly be considered 'compliance' either. Such activities might include engaging in artificial transactions to avoid tax, searching out every possible legitimate deduction, using delaying tactics and appeals wherever this might reduce the flow of tax payments and so on. Even if such activities are within the letter of the law, they are clearly not within the spirit of the law. Compliance might therefore be better defined in terms of complying with the spirit as well as the letter of the law, (Palil & Mustapha, 2011).

### *Empirical Review*

There are several empirical studies on tax audit and tax compliance in both developing and developed Countries. Niu (2010), Kleven (2010) Hyun (2005), Chan and Mo (2000) and Yusuf (2012) are from developed Countries. Only a few prior literatures according to the researcher's knowledge contain comprehensive detailed study of the tax audit variable relationship on tax compliance variable in developing Countries, particularly in Nigeria. Badara, (2012) investigated the impact of tax audit on tax compliance in Nigeria and concluded that the relevant tax authorities employed tax audit towards achieving target revenue and that tax audit reduce the problems of tax evasion. In addition, Appah and Eze (2013) studied the Causality Analysis between Tax Audit and Tax Compliance in Nigeria, the results

reveal a positive relationship between tax audit and tax compliance. This means that the compliance rate rises if the tendency of being tax-audited is high.

Modugu and Anyadugba (2014) studied the impact of tax audit on tax compliance in Nigeria in the year 2013 and used primary source to obtain data through administering of questionnaire. The dependent variable used was Tax Compliance which was measured by the number of staff of the state board of internal Revenue of the selected states and their corresponding Federal Inland Revenue Service (FIRS), the independent Variable which was Tax Audit was measured by the probability of being audited. Out of a population of all tax payers in the 5 Geo-Political zones in Nigeria, a sample size of 500 was selected using the stratified sampling technique which cut across the five geo-political zones representing 100 for each zone. Spearman rank order Correlation and ordered logistic regression was used in analyzing the relationship between variables. The researchers found out that if the taxpayers are aware of the offences they are committing when evading tax and the consequences of being non-compliant taxpayers, they might reduce their tendency to evade tax. On the other hand, if they are not aware of the implications of being dishonest in terms of the offence, they are likely to be charged with if caught, they might be more inclined to cheat because they presume that they will not be detected and could save money.

Yusuf (2012) studied tax compliance among small and medium Corporations in Malaysia in 2011; he used economic difference theory to analyze and tested 375 tax-audited cases finalized by the Inland Revenue board of Malaysia in 2011 which in fact was the total number of tax audit cases completed as at 2011. Using the multiple regression analysis for analyzing the data retrieved, findings revealed that Marginal tax rate, company size and type of industry exerted significant effects on corporate tax non-compliance.

### *Economic Theories*

Economists approaching the question of why people fail to comply with the law began by constructing a theory based upon the assumption about human behaviour that underlies all economics; basically, that individuals generally act rationally in evaluating the cost and benefit of any chosen activity. Consequently, in modelling the choice confronting individuals who are deciding whether to engage in tax evasion, this basic model assumes that people would commit evasion when the expected utility of their criminal act exceeds its expected disutility (Slemrod, 2000). Economic theory of tax compliance is said to have originated from the work of Allingham and Sandmo (1972) and Srinivasan (1973) which were based on economic of crime models. The models posit tax compliance as a function of three deterrent variable; tax rate, tax audit and probability of detection. Further extension of the traditional model was made by (Sour, 2004) who included individual morality and group conformity. However, the main issue is that tax audit has still remained an important determinant of compliance as highlighted by the theory.

### **3.0 Methodology**

The study adopted the survey research design. The basis for adopting the Survey research design is because the study aims at assessing the effect of tax audit on taxpayers' compliance using primary data. In selecting the choice of research method to be used, the problem as identified earlier and the desired objectives were considered. The justification for the choice of data collection stemmed from the fact that this was relatively cheap, time efficient and free from interviewer bias, (Tasios & Bekiaris, 2012). The Katsina State Board of Internal Revenue served as the case study; this study sought to probe into the services provided by a sub unit of a large organization. The questionnaires were structured in line with the research hypotheses and were arranged in order of topic so that the respondents can concentrate on

each theme and provide focused answers (Tasios & Bekiaris, 2012). Data relating to the variables were collected to basically describe the relationship between the variables under study.

The target population of the study comprised of the entire staff of the Katsina State Board of Internal Revenue in Katsina State which aggregated to a sum of Seventy-five (75) staff. The total staffs of the board were considered for the study consisting of Seventy-five staff. With this understanding, questionnaires shown in the appendix were administered by depositing group of Questionnaires with Directors directly involved in tax collection and Audit. In this study, the primary source of data collection was employed which involved the use of questionnaire to elicit responses regarding the perception of personnel saddled with the collection and remission of tax revenue to the government and concurrently obtain taxpayers' motivation for their behavior towards tax. Seventy-five (75) Questionnaires were administered to the entire staff of the Katsina State Board of Internal Revenue, sixty-two (62) complete questionnaires were returned representing a response rate of 82.67 percent. This distribution was done by depositing group of questionnaires with the Directors directly involved in tax Collection and Tax Audit respectively. The justification for the choice of data collection stemmed from the fact that this was relatively cheap, time efficient and free from interviewer bias.

### *Variable of the Study*

Tax Remittances (TAR) is the dependent variable. Two questions were formed in evaluating the compliance of taxpayers in remitting taxes of taxpayers for tax purpose. Each item of statements representing the dependent variable was measured on a 5-point Likert scale ranging from strongly disagreed (1) to strongly agreed (5) and a mean was obtained to compare against the expected mean. Audit Yield (ADY) and Field Tax Audit (FDTA) are considered as having potential effect on Tax Audit. In order to create an appropriate measure of Tax Audit, a question was included for evaluation of tax audit. As stated above, ADY and FDTA questions were measured on a 5-point Likert scale ranging from strongly disagreed (1) to strongly agreed (5) and a mean was obtained to compare against the expected mean.

### *Model Specification*

The study employed a modified version of the econometric model of Appah and Eze (2013) as adopted and modified by the study is therefore stated as:

$$TAR = a + \beta_1ADY + \beta_2FDTA + e \dots\dots\dots (1)$$

Where:

TAR = Tax Remittance;

$\beta$  = Regression Coefficients for Tax Audit;

a = Constant;

ADY = Audit Yield;

FDTA = Field Tax Audit; and

e = Error term.

### *Method of Data Analysis*

The data collected were analyzed by indicating the opinion of the respondents in their relative frequencies in tabular form as shown in Table 3.0 below. Mean scores were employed for data analysis. The main tools that were used for classification of data are tables and Chart. For the purpose of this study, the method of data analysis used was ordered logistic regression analysis for testing the hypothesis of

the study. It is an important technique of hypotheses testing as it tests the relationships that exists between dependent variables and independent variables.

**Table 2: Five-Point Likert Scale**

Item	Value
Strongly Agreed	5
Agreed	4
Undecided	3
Disagree	2
Strongly Disagree	1
<b>TOTAL</b>	<b>15</b>

**Source:** Developed by Researcher 2022.

The decision rule was determined by finding the mean of the nominal rating values and dividing by the numbered options:  $(5 + 4 + 3 + 2 + 1) = 15$ . Therefore,  $15/5 = 3$ . Expected Mean,  $x = x/N$ ; where  $x = \text{mean}$ ,  $x = \text{Total sum of scores}$ , and  $N = \text{number of rating items}$ .

This section presents the data analysis and interpretation of results. The data for analysis was obtained by scaling the responses obtained from the questionnaires administered to staff of Katsina State Board of Internal Revenue (KSBIR). The responses are weighted on a 5-point Likert scale where the values of 1, 2, 3, 4 and 5 were allocated to the various responses: Strongly Disagreed, Disagreed, Undecided, Agreed and Strongly Agreed respectively. The data was analyzed using the SPSS package. Tables 4.1, 4.2 shows the results of relevant tests carried out to ensure that construct of the questionnaire are adequate and are explanatory of the variable. Table 4.3, 4.3.1, 4.3.2 and 4.3.3 showed the demographic characteristics of the respondents regarding gender, qualification, knowledge of tax matters and years of work experience. Tables 4.4.1 to 4.4.8 shows responses of respondents on statements as regards tax compliance and the potential effect of tax audit.

#### 4.0 Results and Discussion

##### *Cronbach Alpha Test*

In order to test the reliability of the instrument, Cronbach Alpha test was used to test the internal consistency of each construct variable (Pallant, 2011). In this respect, Table 4.2 showed that the Cronbach alpha value for the seven statements included in the construct is 0.703. According to Nunnally (1978), a Cronbach's alpha value of 0.70 or more is considered significant and highly reliable, thus the results depict a great internal consistency for the seven (7) statements.

##### *Demographic Characteristics*

Section A of the questionnaire items attempted to find out the sex, level of qualification, tax knowledge, and length of Service of the respondents. Responses to the question are contained in Table 3 below.

**Table 3.1: Gender Distribution of Respondents**

Sex	Frequency	Percentage (%)
Male	47	75.81
Female	15	24.19
Total	62	100

**Source:** Field Work, 2022.



**Table 3.2: Level of Qualification**

Qualification	Frequency	Percentage
First School Leaving Certificate	0	0
WASCE/GCE	9	14.52
OND/NCE	16	25.81
HND/BSc	28	45.16
Others	9	14.52
Total	62	100

Source: Field Work, 2022.

**Table 3.3: Level of Tax Knowledge of Respondents**

Level of Tax Knowledge	Frequency	Percentage (%)
Highly Knowledgeable	22	38.59
Fairly Knowledgeable	23	40.35
Poorly Knowledgeable	12	21.06
Total	57	100

Source: Field Work, 2022.

**Table 3.4: Length of Service of Respondents**

Number of Years in Service	Frequency	Percentage (%)
0 - 5 years	11	18.64
5 - 10 years	27	45.76
10years - Above	21	35.59
Total	59	100

Source: Field work, 2022.

**Table 4: Descriptive Statistics**

Statistics		Q1	Q2	Q3	Q4	Q5	Q6	Q7
N	Valid	62	62	62	62	62	62	62
	Missing	0	0	0	0	0	0	0
Mean		2.79	2.58	2.81	2.65	2.85	2.84	2.73
Sum		173	160	174	164	177	176	169

Source: Descriptive Statistics Result Using SPSS 16.

Table 4 shows the brief details of the descriptive statistics for the questions administered. The mean value of Question 1 (Q1) stood at 2.79 meaning that majority of the respondents did not agree that taxpayers in the state remit their taxes appropriately and when due. The mean value also for Question 2 (Q2) remained at 2.58, which goes to explain that individuals and corporate taxpayers in Katsina State do not voluntarily register their businesses for tax purpose. Q1 and Q2 which proxy for Tax Compliance, goes to suggest that taxpayers in Katsina State do not voluntarily comply with the existing tax legislations.

**Table 4.1: Question One**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY DISAGREED	10	16.1	16.1	16.1
	DISAGREED	20	32.3	32.3	48.4
	UNDECIDED	15	24.2	24.2	72.6
	AGREED	7	11.3	11.3	83.9
	STRONGLY AGREED	10	16.1	16.1	100.0
	Total	62	100.0	100.0	

Source: SPSS 16.

Table 4.1 reveals that 16.1% and 32.3% of the respondents respectively strongly disagreed and disagreed that the tax audit on taxpayers has helped improved the remittances of taxes from the taxpayers in the state. 24.2% of the responses remained undecided while 11.3% and 16.3% of the remaining responses agreed and strongly agreed respectively. The mean score for this statement is 2.79 which is less than the expected mean shows that tax audit on taxpayers in the state has not resulted in compliance to tax remittances in the state.

**Table 4.2: Question Two**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY DISAGREED	11	17.7	17.7	17.7
	DISAGREED	21	33.9	33.9	51.6
	UNDECIDED	20	32.3	32.3	83.9
	AGREED	3	4.8	4.8	88.7
	STRONGLY AGREED	7	11.3	11.3	100.0
	Total	62	100.0	100.0	

Source: SPSS 16.

Table 4.2 shows that 17.7% and 33.9% of the total responses strongly disagreed and disagreed respectively that individuals and corporate taxpayers in Katsina State voluntarily register their business for tax purposes. 32.3% of the responses were undecided while 4.8% and 11.3% agreed and strongly agreed respectively. The mean value of 2.58 affirmed that individuals and corporate taxpayers in Katsina State do not voluntarily register their business for tax purpose.

### *Correlation Coefficients*

This section contains the relationship or levels of association among the variables of the study. The summary of the correlation coefficients and p-values are presented in Table 5.

**Table 5: Correlations**

		TAR	ADY	FDTA
TAR	Pearson Correlation	1	0.319*	0.367**
	Sig. (2-tailed)		0.012	0.003
	N	62	62	62
ADY	Pearson Correlation	0.319*	1	0.188
	Sig. (2-tailed)	0.012		.0143
	N	62	62	62
FDTA	Pearson Correlation	0.367**	0.188	1
	Sig. (2-tailed)	0.003	0.143	
	N	62	62	62
	Sig. (2-tailed)	.0242	0.000	.013
	N	62	62	62

Source: SPSS 16.

Table 5 showed that there was a positive correlation between Tax Remittances (TAR) and Audit Yield (ADY) which is explained by the 0.319 coefficient and is statistically significant at 5%. It also showed that TAR has a positive correlation with Field Tax Audit (FDTA) with a correlation coefficient .367 and statistically significant at 5%.

### Regression Analysis

**Table 6: Regression Analysis**

MODEL I: TAR			
Variables	Coefficient	Sig p	
CONST	1.123	0.035	
ADY	0.295	0.024	
FDTA	0.342	0.007	
Durbin-Watson			1.937
R <sup>2</sup>			0.235
Adj R <sup>2</sup>			0.166
F.stat			3.437
F.sig			0.009

Source: SPSS 16.

The summary of the regression results obtained from the model of the study:  $TAR = \alpha_0 + \beta_1ADY + \beta_2FDTA + e$ ; Regression Equations:  $TAR = 1.123 + 0.295(ADY) + 0.342(FDTA) + e$ . The result from Table 6 shows that the explanatory variables Audit Yield, Field Audit and 0.295 and 0.342 respectively on the dependent variable (Tax Remittances) It can also be observed that the coefficient of the explanatory variables; Audit Yield and Field Tax Audit is significant at 5% and is positively correlated to the dependent variable.

The logical explanation for these findings is that an increase in the Audit Yield and Field Tax Audit will result in an improvement in the tax compliance of taxpayers in Katsina State by 29.5% and 34.2% respectively. The cumulative influence of all the regression variables put together is able to explain the dependent variable up to 16.6% as indicated by the adjusted R<sup>2</sup> and the remaining 83.4% is explained by other factors. Similarly, the result of the F-statistic values 3.437 implies that the joint explanation given by the independent variables is significant at 5% as indicated by the F-Statistic significance of 0.009. The Durbin-Watson which is a measure of serial correlation between the dependent variable (TAR) and the independent variables (ADY, FDTA) from the table shows a value of 1.937 which is less than 2 shows that there is serial auto correlation between the variables.

The cumulative influence of all regression put together is able to explain the dependent variable up to 33.1% as indicated by the adjusted R<sup>2</sup> and the remaining 66.9% is explained by other factors. Similarly, the result of the F-Statistics value of 7.034 implies that the joint explanation given by the independent variables (Audit Yield and Field Tax Audit,) is significant at 5% by F-statistic figure of 0.000.

### *Test of Hypotheses Using Model One*

**Table 6.1: Variable Coefficient**

<b>Variable</b>	<b>Coefficient</b>	<b>Sig p</b>
CONST	1.123	0.035
ADY	0.295	0.024
FDTA	0.342	0.007

**Source:** Result from SPSS 16.

Table 6.1 shows that two of the independent variables (Audit Yield, Field Tax Audit) are significant at 5% level of significance. This reveals that all the explanatory variables used in the study explain the tax compliance of taxpayers in Katsina State. The Table is used to test each hypothesis presented below:

**H<sub>01</sub>:** Audit Yield (ADY) does not have a significant effect on Tax Compliance in Katsina State. Tax Remittance was used to proxy for Tax Compliance.

Tax Compliance which was measured by Tax Remittances is observed to be positively associated with Audit Yield with a coefficient of 0.295 which is statistically significant at 5% with a P-value of 0.024 indicating that Audit Yield does have a positive significant influence on Tax Compliance of taxpayers in Katsina State. This therefore provides evidence of rejecting the null hypothesis one of the studies. Thus, H<sub>01</sub> is rejected and alternate hypothesis is accepted. This result is in line with the prior expectation which assumes that there should be a positive significant relationship between tax audit variable and tax compliance.

**H<sub>02</sub>:** Field Tax Audit (FDTA) has no significant effect on Tax Compliance in Katsina State. Tax Remittances was used to proxy Tax Compliance.

Tax Compliance proxy by Tax Remittances is found to be positively associated with Field Tax Audit with a coefficient of 0.342 and statistically significant at 5% with a P-value of 0.007. This goes to prove that field Tax Audit does have a statistically influence on Tax Compliance in Katsina State which implies that the null hypothesis two of the study should be rejected. This result is in line with the prior expectation

of the study which considered that there should be a significant positive relationship between Tax Audit variable and Tax Compliance.

### *Discussion of Research Findings*

The research results showed that component of Tax Compliance is function of effective Tax Audit. The study finds out that an increase in Audit Yield and Field Tax Audit would bring about increases in Tax Remittances This indicates that more Audit Yield and Field Audit can increase the compliance of taxpayers in Katsina State. The main objective of this research is to obtain empirical evidence regarding the effect of tax Audit on Tax Compliance on taxpayers in Katsina State. The result from the first model showed that Audit Yield and Field Tax Audit both have a positive significant effect on Tax Remittances (TAR). The results of the study are similar to those of research work carried out by Yongzhi (2005), Badara (2012), Appah and Eze (2013) and Adediran, Alade and Oshode (2013), which showed that tax audit has a significant role to play in improving the compliance of taxpayers in Nigeria. According to the findings of Badara (2012) a significant relationship exists between tax audit and tax compliance based on the result of the findings which was obtained from primary data. On the basis of the empirical result of Appah and Eze (2013), it was concluded that tax audit is one of the compliance strategies that can be used to achieve tax compliance in Nigeria because the average Nigerian is known for tax evasion and avoidance using all the available means of not paying the relevant tax to the government.

### **5.0 Conclusion and Recommendations**

The results from this study suggest that ineffective tax audit on taxpayers has yielded a low level of compliance among taxpayers. It is on record that no taxpayer is ready to open his/her books for examination by tax officers. Not minding the concept of “quid pro quo” (something for something), it is still the duty of taxpayers to declare their tax affairs in line with the available tax laws. Tax audit is a systematic approach that follows a structured, documented plan called audit plan. In this case, tax records are examined by the auditors who use a variety of generally accepted techniques. With the adjusted  $R^2$  of 0.166 and 0.331 significant at 0.009 and 0.000 from the models used in the study concludes that tax audit has a significant impact on tax compliance in Katsina State. Particularly, the study concludes that tax audit and Field Tax Audit has a significant positive effect on Compliance (Tax Remittances).

Based on the data presented above and analysis as interpreted the following recommendations are provided:

- i. The RTA at all levels (Federal, State and local) should improve the standard of Audit employed in order to attain Audit Efficiency and Effectiveness. Tax Auditors should be properly trained and re-trained so as to equip them with the appropriate skill and knowledge which will help improve the standard of tax audit and invariably improve tax compliance. A policy which will create public awareness on the importance of compliance and the effect of non-compliance should be introduced by the RTA and in the case of self-employed taxpayers, conscious effort should be put in place to track and register every business (es) for the purpose of tax payment.
- ii. Government should efficiently execute capital projects preferred by citizens; this will satisfy the taxpayers that the tax collected by the government is for the general benefit of the society thereby increasing the level of compliance;

- iii. Tax authorities should provide easy and efficient means of tax payment and collection procedures, which shall go a long way in reducing the stress involved in tax payment;
- iv. Accountability and transparency in tax payment and collection should be improved and corruption should be curtailed, which in many cases deteriorates revenue yields to the government.

Subsequently for further future research, the following suggestion is provided thus: The coefficient of determination ( $R^2$ ) for the two models estimated to be around 0.166 and 0.331. This implied that there are still some other factors influencing tax compliance which are not considered in the study. For future researches, other factors like government spending, penalties and enforcement and changes in government policies aside the variables used in this study should be considered.

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