EFFECT OF TAX AUDIT ON TAX COMPLIANCE IN KWARA STATE, NIGERIA

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Abstract

The frequency of tax audits and investigations in recent times by the Federal Inland Revenue Service (FIRS) and the various State Boards of Internal Revenue (SBIR) in Nigeria emanates from non-compliance attitude of taxpayers which eventually led to revenue leakages. Conversely, the ever increasing demand of the populace (infrastructure facilities) calls for effective tax drive to increase revenue base. This study therefore examines the effect of tax audit on tax compliance in Kwara state with a view to establish the difference between tax revenue in the pre and post audit periods. Secondary data in respect of tax audit, tax compliance, government revenue, government spending and penalties for 229 companies in Kwara State from 2003 to 2016 were extracted from Tax Audit Department of Kwara State Internal Revenue Service and Kwara state Audited accounts. These data were analysed using Classical Ordinary Least Square (OLS) regression method. The finding of the study reveals as follows: a significant positive relationship (p=0.0076) exist between tax audit and tax compliance in Kwara State between 2010 and 2016; a positive linear relationship (p=0.0033) between government spending and tax compliance in the State. Penalty/fine for default in tax payment has positive effect on tax compliance (p=0.0076) while tax revenue is also higher during the tax audit period (2010-2016) than the pre-tax audit period (2003-2009). Based on these findings, the study concludes that tax audit has a significant positive impact on tax compliance. The study therefore recommends that tax audit should be carried out on a routine basis to ensure that actual revenue collected is what the relevant tax authority remits to the government, internal mechanism to check and monitor the staff of the tax audit department should be put in place to ensure accountability of tax revenue.

Keywords: Economic development, Government revenue, Tax audit, Tax compliance, Tax penalty

Introduction

The frequency of tax audits and investigations, in recent times, by the Federal Inland Revenue Service (FIRS) and the various State Boards of Internal Revenue (SBIR) in Nigeria has been on the increase. This could be attributed to the efforts of the government to diversify its revenue from oil revenue to non-oil revenue sources, of which taxation forms a major part.
The constant reliance on the oil revenue for political, economic, and social development for the provision of infrastructure in the country has become worrisome as the price of crude oil continues

to decline below the budget benchmark which in turns affects allocations to states from federal government. To meet up with government responsibilities, governments requires substantial amount of funds to develop and provide these infrastructures. Among the various sources from which governments can generate these funds are taxes which is the most reliable because it is a compulsory levy imposed by the government on income, profit or wealth of an individual, family, community, corporate or unincorporated bodies etc. for purposes of financing public expenditures.

Despite this huge role of taxation in government financing, effective tax administration in emerging economies is plagued with deliberate refusal to pay tax (tax evasion) otherwise called non-compliance. A number of factors including lack of awareness/ sensitization of tax payers, inaccurate remittance of revenue collected by the tax payers, improper record keeping and poor tax administration have arguably placed revenue generation at a disadvantage.

On the contrary, high tax compliance is necessary for efficiency and equity as well as for the development of social capital (Slemrod, 2002).The major economies of the world are built and supported by a sustainable system of revenue generation and one major sustainable means of revenue generation globally is taxation. The fundamental goal of any revenue authority is to collect taxes and levies payable according to the law (McKerchar 2009). However, when it comes to the obligations imposed on them by law, taxpayers are not always compliant. Therefore, for taxation to be effective in achieving both short and long term goals in any economy, the level of tax compliance must be improved for efficient tax administration.

To combat this ugly phenomenon, various countries of the world have introduced tax audit into their tax system. Prior to 2012, tax payers (persons and corporations) in Nigeria were assessed to tax by the relevant tax authorities (government assessment). Subsequently, the current method of self-assessment scheme requires tax payers to file their tax returns independently where the State Internal Revenue Service is required to periodically review and verify the tax returns submitted by taxpayers by way of audit or investigation. Hence, one measure that can be used to improve the level of tax compliance is tax audit which is a process in which the tax authority examines certain issues relating to the profits of a company and its other related returns, as it may deem necessary and expedient in accordance with the relevant provisions of the Act. It is often more detailed and extensive than other types of examination such as general desk checks (OECD, 2006) and usually involves a routine exercise, although its outcome could lead to a re-assessment or referral for special investigation known as back duty investigation, especially if tax evasion is suspected. The message embedded in tax audit is that any attempt to avoid tax presents a high risk of detection and the penalty for non-compliant taxpayers is substantial (Kagina, 2011).

In Kwara State the level of tax compliance among tax payer is quite low, such that a good number of tax payers get away without paying their taxes, hence revenue that would otherwise have been invested in development projects ends up being lost. As a result, tax revenue in Kwara state is insufficient to meet its expenditure needs. As a follow up to this problem, tax audit was introduced in the tax administration of Kwara state with a view to ascertain the extent to which tax payers may or may not have complied with the relevant statutory provisions of the tax Act concerning their audited financial statements and other tax-related returns.

Theoretically, tax audit impacts on taxpayer behavior and is believed to help sustain the confidence and integrity reposed in the self-assessment scheme thereby enhancing voluntary compliance.

However, how well this introduction of tax audit has helped enforce tax compliance among companies has attracted commentaries and debates in developed economies

Abati (2014) noted that the state of decay in Kwara state's public infrastructure and economic activity are reflection of poor public governance and the low tax morale and non-compliance may have become the aftermath effect. As Biber (2010) noted, the role of an audit program in a modern tax administration must extend beyond merely verifying a taxpayer's reported obligations and detection of discrepancies between a taxpayer's declaration and supporting documentation. An important issue for any government and revenue collecting authority is to obtain knowledge and understanding of the reasons for taxpayer non-compliance. However, measurement of the magnitude of intentional and unintentional non-compliance can be difficult as it involves estimating levels of uncollected tax, which by its nature is not detected by the revenue authority.

Unfortunately, the increasing trend of Internally Generated Revenue (IGR) in the past few years in Kwara state suggest a contradictory reflection. Admist a number of related studies (Badara and Ashgate, 2012; Appah, 2013; Agumas, 2016; Adediran Alade and Oshode, 2013; Mu'azu, 2012; Okoye, 2006; Kennedy, 2014, Bassey, 2013) on tax audit and its processes, tax investigation, or differences between audit, investigation and its effect on tax compliance, the link between tax audit and compliance level remained unclear. This is a justifiable gap that was filled in this study. As such, the following research questions were addressed in this study:

i. What is the relationship between tax audit and tax compliance in Kwara state?
ii. What is the relationship between governments spending and tax compliance?
iii. How does weak enforcement of laws regarding penalties affects tax compliance?
iv. What is the difference in tax revenue between pre-audit and audit period?

Corresponding hypotheses were put forward as follows:

H_{01}- Relationship between tax audit and tax compliance is not statistically significant in Kwara state

H_{02}- There is no positive linear relationship between government spending and tax compliance.

H_3- Weak enforcement of laws regarding penalties does not have significant influence on tax compliance.

H_4- There is no significant difference in Kwara State revenue before tax audit and during the tax audit period.

Thus, this study majorly examines the effect of tax audit on tax compliance, specifically, it evaluates the effect of government spending and penalties on tax compliance and increment in revenue between pre-audit period and tax audit period.

Literature Review

Conceptual Clarification

Tax audit can be defined as an examination of an individual or organisation's tax report by the relevant tax authorities in order to ascertain compliance with applicable tax laws and regulations of state. It is process where the internal revenue service tries to confirm the numbers that you have put on your tax return. According to Kirchler (2007), tax compliance is an ability of a tax liable body to submit accurate, complete and satisfactory returns in conformity with tax laws and regulations of the state to the authority for the purpose of tax assessment. He further described tax audit as an examination of an individual or Organisation's tax report by the relevant tax authorities in order to ascertain compliance with applicable tax laws and regulations of state.

Accordingly, an appropriately designed audit policy may not only achieve greater compliance and higher revenue but also have other effects that would be normally considered desirable in a wider economic context. Thus, a positive relationship between the audit and the voluntary compliance Yongzhi (2011)

Erard (2004) mentioned some reasons for tax audit to include the need to improve the degree of voluntary compliance by tax payers, to ensure that the amount due is collected and remitted to government and to ensure that satisfactory returns are submitted by the tax payers. Other reasons he gave are to assist the government in collecting appropriate tax revenue necessary for budget, maintaining economic and financial order and stability, to minimise the degree of tax avoidance and tax evasion, and ensure strict compliance with tax laws by tax payers.

With regard to the level of tax compliance, a few cross-cultural studies have been published to date with interesting findings. For instance, a cross-cultural study between Hong Kong and Australia found that Australian taxpayers were generally more compliant than the Hong Kong taxpayers (Richardson, 2006).

However, when compared to the US and Singapore taxpayers, Australian taxpayers were found to be the least compliant, with Singaporean taxpayers having the lowest non-compliance rate at 26 percent, while Australian taxpayers having the highest non-compliance rate at 45 percent (Bobek, Robin & John, 2007).
A more comprehensive study on tax compliance, conducted by Belkaoui (2004), utilizes a compliance index that ranges from 0 to 6, where higher scores indicate higher compliance. The study, considering compliance in 30 countries, ranked New Zealand as the second most compliant nation after Singapore. However, on Paying Taxes ranking, Nigeria moved up from 182 in 2017 to 171 in 2018 according to the World Bank. That was a big win which was significantly driven by the various reforms by the tax authorities.

The three types of tax audit according to Badara and Ashgate (2012) include the random tax audit, cut-off tax audit and conditional tax audit. However, Henry and Ladi (2015) classified tax audit into desk audit, field audit and back duty audit but to Oyedokun, (2016) it can be classified into advisory audits and record keeping audit, desk or office audit, field audit and back duty audit. For the purpose of this study, back duty audit is examined. Back duty and field audit are related, they both involve physical verification of documentary evidences and materials at the premises in order ascertain compliance with the relevant provisions of tax laws. This review is usually conducted within a six-year period from the date of submission of the relevant returns. It is an exercise by the relevant tax authority to ensure that the amount due to the government is duly collected.

The processes involved in tax audit according to GholamReza and Abdulrahman, (2016) is such that the taxpayer's records are checked, relevant documents and information are requested for and interviews are conducted. Thereafter, the relevant tax authorities will review the documents obtained during the visit and communicate outstanding liability if any to the tax payer for payment.

The objectives of tax audit as provided by James and Alley (2002), are to establish a viable and effective tax administration in order to deal with constantly changing economy, to put strategies in place in order to resolve tax dispute between the tax authority and the liable tax payers, to maintain a strong mechanism to deal with tax avoidance techniques which are available to various organisations, but are susceptible to tax abuse.

Theoretical Background

The most related theories to this study is classical theory and theory of planned behavior.

Classical Theory

Alabede, Zainol and Idris (2011) stated that compliance theory depends largely on penalty and enforcement. They further stressed that this theory of tax compliance makes taxpayers to pay tax as a result of fear and sanctions. Hence, the essence of the deterrence model of tax compliance is to chiefly examine the interaction between probabilities of detection and sanctions that should affect non-compliance.

Theory of Planned Behavior

The theory of planned behavior posits that the behavior of individuals within the society are under the influence of definite factors, originate from certain reasons and emerge in a planned way. Benk, Cakmak and Budak, (2011) states that the ability to perform a particular behavior depends on the fact that the individual has a purpose towards that behavior. Therefore, the factors that determine the purpose towards that behavior are attitude towards behavior, subjective norms and perceived behavioral control (Armitage & Conner, 2001).These factors are under the influence of behavioral beliefs, normative beliefs and control beliefs.

This study presents tax compliance emphasizing the need for theories that incorporates classical theory of tax compliance and theory of planned behavior characteristics to assists tax authorities in designing more viable fiscal policies.

Empirical Review

The area of compliance has been well addressed in the literature but tax audit was significantly neglected, as such, analysis of available literature are hereby discussed chronologically.

Palil and Mustapha (2011) in Nigeria examines whether thoroughness of audits could encourage taxpayers to be more prudent in completing their tax returns, report accurate income and claim the correct deductions to ascertain their tax liability. The study finds that tax audit is capable of increasing the revenue base and stamping out tax evasion in the country. More so, taxpayers who have never been audited might be tempted to underreport their actual income and claim false deductions. However, it was also reported that audit is yet to make any substantial impact on corporate tax compliance in Nigeria.

The findings of Palil and Mustapha (2011) complement that of Witte and Woodbury (1985) that studied small proprietors using questionnaire administration. The study revealed that some selected tax payers and corporate bodies found that tax audits to have a significant role in tax compliance. Although Witte and Woodbury (1985) found significant impacts of tax audits on tax compliance results, Beron (2002) found a contradictory result as the latter reported that audits did not significantly correlate with evasion for all groups they studied. Audits were found to be more effective in inducing taxpayers to over claim deductions rather than encouraging them to correctly report actual income.

Mu'azu (2012) studied the effect of tax audit on tax compliance using simple percentages methodology. The study revealed that tax audit reduces tax evasion, tax avoidance and other tax irregularities but improves tax compliance.

Appah (2013) analysed the causality between tax and tax compliance in Nigeria using applied survey research design. The study examine how tax payer is assumed to maximize the expected utilities of tax evasion, balancing the benefits of successful tax cheating against risky prospects of being caught and punished by tax authorities. Evidence from this study revealed that tax audit is one of the compliance strategies that should be taken seriously to achieve tax compliance in Nigeria.

Adediran and Alade (2013) studied the impact of tax audit and investigation on revenue generation in Nigeria. The study concluded that tax audit and investigation are critical to causing the tax payer to be on their toes. Ibrahim, Yusuf and Bello (2014) examined the contribution of tax audit and investigation to the sustainable development of the Nigerian economy. The study finds that fundamental principles of professional ethics often act for taxpayers in their dealing with the relevant tax authority.

Agumas (2016) in Ethiopia studied the impact of tax audit on improving tax payer's compliance using partial co-efficient regression. The study revealed a strong association between probability of tax audit and the level of tax compliance.

It was evident from the foregoing that tax audit plays an important role in tax voluntary compliance. However, this role is difficult to predict due to the interplay of tax audit, tax payers perception of government spending as well as enforcement and penalty for default which cumulates to produce an unspecified direction of impact of tax audit on tax compliance in Nigeria. This study took a systematic analysis of the effect of these variables and eventually filter specific effect of these variables on tax compliance.

Government Spending and Tax Compliance

Palil and Mustapha (2011) observe that studies on the relationship between the specifics of actual government spending and tax compliance, particularly on tax evasion, are very limited. They acknowledge that taxpayers, and especially those who pay high amounts of tax, were sensitive to what the government spends their money on. Although there is limited empirical evidence, it is reasonable to assume that taxpayers tend to evade tax if they perceive that the government spends tax money/revenue unwisely. Hence, the linkage between internal revenue generation on infrastructural development as pointed out by Adesoji and Chike (2013) was significant.

Penalties to offenders and Tax Compliance

A theoretical economic model introduced by Allingham and Sandmo (1972) clearly indicated that penalties as well as audit probability have an impact on tax compliance. The direction is such that higher penalty to defaulters and potential audit probability discourage tax evasion. However, the more complex models like principal agent theory and game theory suggest that penalties and audit probability are difficult to portray in compliance models as the results are determined endogenously with tax cheating.

Summarily, penalty rates impact upon tax compliance behavior while tax awareness of offences was presumed to have a significant influence as well. In reality, "ceteris paribus" if the taxpayers are aware of the offences they are committing when evading tax and the consequences of being non-compliant, they might reduce their tendency to evade tax. Conversely, if they are not aware of the implications of being dishonest in terms of the offence they are likely to be charged if caught, they might be more inclined to cheat because they presume that they will not be detected and could save money. Thus in theory, educating taxpayers and keeping them well informed with the sentences of being an evader may be important, since prevention measure is better than cure (imposition of a penalty).

To sum it up, tax law enforcement remains inevitable in the tax system and administration in an effort to administer all the tax laws in Nigeria because it has the effect of punishing offenders by either distrainment or prosecution and act as a deterrence for other members of the public while engendering voluntary compliance to the tax laws.

Given the gap of unspecified direction of tax audit on tax compliance in the literature together with the fact that improving tax payer's compliance is one of the most important but least studied aspects of fiscal reform in developing economies, this study examines the effect of tax audit on tax payers' compliance in Kwara State taking into consideration government spending on infrastructural developments, enforcement of penalties on defaulters and effect of tax audit on government revenue.

Methodology

Model Specification

This study follows Kennedy and John (2014) multiple regression models specified to accommodate three independent variables using Ordered Logistic Regression Technique in an attempt to determine the impact of tax audit on tax compliance. To determine the significance of the independent variables in relation to tax compliance, the model was adapted and is specified to include tax penalty as:

$Taxcomp_t = \beta_0 + \beta_1 Taxaud_t + \beta_2 Govspend_t + \beta_3 Pen_t + U_t$ ……………………………….. (i)

Where:

Taxcomp= Tax Compliance

Taxaud= Tax Audit

Govtspend= Government Spending

Pen= Penalties and enforcement

U_t = Error term

However, the model is modified and expanded to determine whether government revenue was higher or lower during the pre-audit period (2003-2009) and the audit era (2010-2016) in Kwara State which suggest an introduction of dummy variable model. Thus, the model is represented as follows:

$GRV = \beta_0 + \beta_1 D_1 + U_t$ ………………………………………………………………….(ii)

Where:

GRV= Government revenue from the period 2003-2016

D_1= Dummy variable taking the value of 0 for the pre-audit period (2003-2009) and 1 for audit period (2010-2016).

U_t = Error term

Measurement of variables

Tax Compliance is measured as the actual payment to tax liability raised on taxpayer; that is the amount of actual tax collected which is also described as the level of tax payer's response to settlement of their tax liabilities for the tax audit period (2010-2016).

Tax Audit is measured by the assessment raised on the selected companies after thorough assessment of their records, books and financial statements. This is referred to as tax liabilities for the tax audit period (2010-2016).

Government spending is measured as the capital expenditure executed by the government as the only feasible contribution by government to the tax payers.

Penalty, a control variable is measured as the difference between tax liability of the tax payers before and after tax audit enforcement. This is in line with Section 76 of Personal Income Tax 2011 (Amended Act) which specifies 10% penalty chargeable on principal liabilities.

Government revenue is measured by the amount generated as tax revenue level prior audit periods (2003-2009) and amount of tax revenue generated during the audit period (2010-2016).

A priori expectations

The result of this study is expected to provide positive relationship between tax audit, government spending and enforcement (penalty) on tax compliance. Thus, expectedly, $B_1, B_2, B_3 > 0$.

Data and Analysis Method

Secondary data is mainly used in this study. These were collected from Kwara State Internal Revenue Service. These data are collected from a total number of 229 tax payers' records from all sectors in the state to ascertain the amount assessed on them to tax from years 2010-2016. Data is also collected from Kwara state audited accounts from years 2003-2016 to ascertain the amount of tax revenue generated and capital expenditure of projects. Classical Ordinary Least Square (OLS) wS used to analyse the data collected.

Data Analysis, Results And Discussion of Findings

The result of analysis carried out are presented in table 4.1 below hypothesis by hypothesis:

Hypothesis One

H_{01}: There is no statistical significant relationship between tax audit and tax compliance.

Hypothesis Two

H_{02}: There is no positive linear relationship between government spending and tax compliance.

Hypothesis Three

H_{03}: Weak enforcement of laws regarding penalties does not have significant influence on tax compliance.

Hypothesis Four

H_{04}: It is predicted that Kwara State average revenue is higher during the pre-tax audit period than the pre-tax audit period.

Table 4.1 Result of Hypotheses Tested

Variable	Coefficient	Standard error	t-statistics	Prob
Hypothesis1 (DTAXAUDIT.1)	0.024150	0.007250	3.329617	0.0076
Hypothesis2 (GOVTSPEND)	0.002704	0.000741	3.647836	0.0033
Hypothesis 3 (DPEN)	0.24150	0.072531	3.329617	0.0008
Hypothesis 4 (DUMMY)	1.087968	0.321254	3.386629	0.0054

	Hypothesis 1	Hypothesis 2	Hypothesis 3	Hypothesis 4
Number of observations				
R Squared	0.525759	0.525817	0.525759	0.488693
Adjusted R squared	0.478335	0.486302	0.478335	0.446084
Standard error of regression	37538494	27290330	37538494	0.601011
Sum squared residuals	1.41+E16	8.94E+15	1.41E+16	4.334569
Log likelihood	-225.2239	-258.4946	-225.2239	-11.65809
t-statistics	11.08635	13.30671	11.08635	11.46926
Prob. (p-value)	0.007623	0.003340	0.007623	0.005402
Mean Dep. Var	-1765543	30260445	-1765543	22.59465
S.D. dependent Var	51973405	38076176	51973405	0.807533
Akaike Inf. Criterion	37.87064	37.21352	37.87064	1.951156
Schwarz Criterion	37.95146	37.30481	37.95146	2.042450
Hannan- Quinn Criterion	37.84072	37.20507	37.84072	1.942705

Durbin Watson Stat.	2.054400	1.140307	2.054400	1.230930

Source: Author's Computation, (2019).

The result as indicated in table 4.1 with respect to tax compliance and tax audit reveals that the overall coefficient of determination (R^2) of 0.525759 indicates that about 53 per cent of changes in tax compliance is explained by tax audit carried out between 2010 and 2016. The t-statistics of 11.08635 and corresponding p-value of (0.007623) which is less than 5% shows that the model is significant. The Durbin Watson (D.W) statistics of 2.054400 was substantially close to the traditional benchmark of 2.0 in the model. The study then concludes that there is no sign of auto-correlation or serial correlation in the model specification; hence the assumption of non-autocorrelation is not violated.

Since the p value is 0.007623 and the coefficient of r is 0.52579, the null hypothesis is rejected. Hence, the study concludes that there is significant relationship between tax audit and tax compliance in Kwara State between 2010 and 2016. Thus, a 1% increase in tax audit on the average led to a 2% increase in tax compliance in Kwara State between 2010-2016. This agrees with the findings of Slemrod, (2000) that tax audit is one of the most effective policies to prevent tax evasion behavior.

This finding is also consistent with Adediran, *et al* (2013) view that the taxpayer is a dodger when it comes to issues of tax payment. He (taxpayer) therefore needs to be motivated seductively or by force into paying what is expected from him. The taxpayer is always unwilling to pay his tax liability but the use of tax audit has however helped in the generation of more revenue to the government.

Similar results were obtained for tax compliance and government spending as the overall coefficient of determination (R^2) is 0.525817 while the p-value 0.003340 shows that the model is significant. Thus, it was concluded that tax compliance with coefficient of 0.002704 has a positive linear relationship with government spending in Kwara State between 2003 and 2016. Thus, since the P-value (0.0033) is less than 0.05, the null hypothesis is rejected and it was concluded that a positive linear relationship exists between government spending and tax compliance in the State. Specifically, evence from table 4.1 suggests that a 1% change in government spending is likely to cause 2% increase in tax compliance in Kwara State. This finding supports the theory of human behaviour which states that individuals generally act rationally in evaluating the cost and benefit of any chosen activity. Thus, the more people (taxpayers) perceive government to be responsible to them in terms of provision of basic social amenities (portable water, good roads, education, health, safety and securities as well as reasonable fiscal plicies) the more they are ready to comply with tax payment without being forced to do so in Kwara state.

Hypothesis three which sought to establish whether or not weak enforcement of laws regarding penalties have significant influence on tax compliance was rejected because ($P<0.05$). in clear terms, results in table 4.1 reveals statistical significant and positive relationship between penalty for non-tax compliance and compliance itself in Kwara state (coeff = 0.241501) while p- value of 0.0076 is less than 5%. Based on these, it was concluded that tax penalty has positive effects on tax compliance. This suggest that a change in penalty melted out by the government on tax evaders/defaulters will on the average cause a change in tax compliance. In effect, on the average, a 1% increase in penalty will to cause a 24% increase in tax compliance in Kwara. This result corroborates Adediran, *et al* (2013) assertion that the law is clear on who should be held responsible. This result also agrees with the classical theory of compliance which states that tax compliance makes taxpayers to pay tax as a result of fear and sanctions. Pointing to Section 76 of the Personal Income Tax Acts (PITA) as amended to date which recommends that where an employer fails; "to make the deduction or properly to account for their collections therefore, the amount there together with a penalty of 10% per annum on the amount due as or an interest at the prevailing commercial rate shall be recoverable as a debt due by the employer to the relevant authority". Thus, it is the duty of the appointed/collection agent or an employer to fully account for what deducted, or ought to have deducted, on behalf of the relevant tax authority.

A comparison of Kwara state tax revenue generated during the pre-tax audit (2003-2009) and tax audit period (2003-2016) was also carried out. This was done to establish whether the revenue was higher during the tax audit period than the pre-tax audit period or otherwise. The result in this respect as indicated in table 4.1. shows that the average revenue of the government was ₦3,768,715,258 between 2003 and 2009 while the average revenue of the government was 11,175,614, 894 between 2010 and 2016. This suggest that Kwara State revenue was higher during the tax audit period between 2010 and 2016 by ₦7,406,899,636. In other word, between 2010 and 2016, the Kwara State average revenue was higher than the average revenue between 2003 and 2009 by 198%. As such, hypothesis 4 was rejected indicating that Kwara State average revenue was higher during the tax audit period between (2010-2016) than pre-audit period (2003-2009).

Conclusion and Recommendations

Based on the results obtained and discussion of findings, the study concludes that tax audit has a positive impact on tax compliance. More so, it was drawn that tax audit is one of the most effective policies to increase compliance level of tax payers in the state. Individuals generally act rationally in evaluating the cost benefit of any chosen activity that is, there is positive linear relationship between government spending and tax compliance in Kwara state such that the more government spends on provision of basic needs of the society, the more the compliance that will be elicited form taxpayers. The study also concluded that tax laws are clear on who should be held responsible that is weak enforcement of laws regarding penalties have significant influence on tax compliance. That is, proper enforcement of tax penalties enhances more compliance in Kwara state. It was also concluded that tax audit contributed to increase in tax revenue during the tax audit period of 2010-2016 in comparison with pre-audit period.

In line with the aforementioned conclusions, it was recommended as follows

(i) Tax audit should be carried out on a routine basis to ensure that actual revenue collected is what the relevant tax authority remits to the government. Internal mechanism to check and monitor the staff of the tax audit department should be put in place to minimize the level of corruption and enhance effectiveness of the tax audit.

(ii) Tax audit department should be given autonomy to carry-out their responsibility effectively as specified in Federal Inland Revenue Service Establishment Act 2007. Adequate penalties should be fully enforced on defaulters without bias with reference to political reasons or personal reasons.

(iii) Kwara state Government should put into judicious use of revenue generated through tax for better compliance of tax payers. This is because the more of social amenities taxpayers find around the more their compliance level will be

(iv) The importance of tax revenue to the government cannot be over emphasized especially now that government over dependence on oil revenue is failing due to global drop in crude oil prices. All relevant authorities should encourage tax audit for increase in tax revenue, in order for government to keep up with its obligation to her citizen.

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