

IMPACT ASSESSMENT OF TAX AUDIT ON TAX COMPLIANCE: A CASE STUDY OF KATSINA STATE BOARD OF INTERNAL REVENUE

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ABSTRACT

There were series of deliberations on what stimulate and ensure compliance with in tax system. In Nigeria, experience has shown that, challenges of any revenue collecting agency are enormous which can obviously depends on the social and economic conditions dictated to the area of responsibility for the Agency. However, recent studies revealed that, lack of adequate personnel to effective enforce tax laws for accurate assessment and high returns accounts for huge leakages in revenue generation especially where self-assessments are not properly reviewed and no audit filings. Thus, this paper attempted an insight into how tax audit affects administration of tax laws and compliance with tax regulations. Using structured questionnaire information was obtained from the staff of the sampled agency (Katsina State Board of internal revenue) analysis was conducted via parametric statistics and presented on table of simple percentages. It was observed that, tax audit influences the performance of the sampled agency though there were low enlightenment on the public as to the application and limitations of voluntary declaration of income via self-assessment. The paper thus recommends that, government through it tax collecting agency should create more awareness on the importance of voluntary income declaration and encourage accurate self-assessment to avoid embarrassing sanctions of non-compliance.

Key Words: Tax audit, tax compliance, revenue collection and Katsina State

INTRODUCTION

Arguably for decades that, taxation contributes about 75% of the Nigeria total revenue and it proves to be the most reliable source of income. But unfortunately, the greater majority of the Nigeria populations do not want to pay tax because the small amounts of collected public revenue can be attributed to some degree of non-compliance by the taxpayers. This is true, in the sense that tax administrator are daily planning to widen the tax base in order increase the yield to meet government continues increase expenditure, the taxpayers, on other hand are ever scheming to circumstance the provision of tax laws in order to reduce their tax liabilities either legally or

illegally. Kircher (2008) define tax Audit as an examination of an individual or organizations tax report by the relevant tax authorities in order to ascertain compliance with applicable tax laws and regulations of state". He 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 (Kircher 2008). Tax compliance can be define as an ability of a tax liable body to submit accurate, complete and satisfactory returns in conformity with tax laws and regulation of the state to the authority for the purpose of tax assessment (Kitcher, 2008).

Frank (2010) concludes that the designed tax authorities audit policy can have important effects

on production decision by firms. The nature of such effects depends on whether firms compete or collude. Accordingly, an appropriate designed audit policy may not achieve greater compliance and higher net revenue for given output and resources spend on audit but may also have other effects that would be normally considered desirable in a wider economic context. By a smart design of audit policy, the authorities can create information externalities that partially offset the informational advantages of industry insider. Since decision in the product market is in the light of the eventual outcome of net after tax expected profits, the audit policy can create a linkage to output decisions. Specifically, it may be possible to nudge firms in the direction of greater efficiency. Yongzhi (2005) concluded that this study does find a positive relationship between the audit and the voluntary competence. The finding suggests that the audit productivity may be under estimated in many studies in the literature. It reminds us that when considering the productivity of the audit work. Besides the direct audit collections, we should also take the audit impact on the voluntary compliance into consideration. For this reason, the finding may provide tax professionals and tax authorities with incentives to strength the audit power and to better structure their audit organization to generate revenue for the state, Jin Kwon (2004) concluded that Korea needs more rigorous analysis to evaluate the determinant of tax culture for the study of tax compliance tax audit. Luigi (1999) concluded that better integration of the research on tax evasion the “law and economics” analysis of legal rule, is definitely desirable. As theoretical analysis proceeds, additional empirical work will be needed together with more extensive study of comparative tax enforcement law and procedure. Tax Audit has been variously discussed in relation

to tax compliance. According to Palil Mustapha (2011), some studies claimed that Audits have a positive impact on tax evasion Jackson and Javoen 1989; Shamugon, 2003, Dubin (2004), these finding suggest that in self assessment system, tax audits, can play an important role and their central is to increase voluntary compliance.

Butter (1993) cited in Palil and Mustapha (2011) also found that tax audits change compliance behaviours from negative to positive. These findings complement the Write and Woodbury (1985) and the Beron, Touchen and Write (1988) studies of small proprietor found that tax audits have a significant role in tax compliance. The objective of the tax audit is to determine the amount of any adjustment that might be required to tax reported by a taxpayer.

LITERATURE REVIEW

Operational overview of Katsina State Board of Internal Revenue

The Katsina State board of Internal Revenue came into effect in 1998. The edict of its establishment is in line with provision the personal income tax act 1993. The edict establish for Katsina State a BIR composition, of the board, function and powers of the Board, financial provision, employment of staff of the board other matters connected to running of the board. However, the responsibility for tax collection in Katsina State ultimately rest with the Katsina BIR, the BIR has a primary responsibility to register, record, assess and collect all taxes including payee, direct assessment on private individuals and withholding taxes.

Usman (2008) classified revenue of state into two broad categories: IGR, and transfer from the federation accounts and which consist of statutory allocation. Access crude and value added tax (VAT). There are eight sources of IGR in Katsina State. The sources are taxes, fines and fees,

licenses, earnings and sales, rent on Government properties, interest and dividends, reimbursable and miscellaneous, budgeted and actual collections from these sources from Katsina State Revenue Service (2013).

According to organization for economic cooperation and development (2006) a tax audit is an examination of whether a tax payee has correctly assessed and reported their tax liability and fulfilled other obligations to ensure tax payers file in accurate information regarding their income and expenses. Tax payers are inherently disposed to reducing their tax liability either through tax evasion and tax avoidance. This may give rise to incorrect filling of their tax returns and a loss of revenue to the government.

Revenue collections were obviously dependent on the tax payer base and their willingness 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, non-registration, not filling returns on time, not keeping adequate books and returns suppressing/hiding sales and maximizing expenses.

The suitability for tax audit to ensure compliance

Large amount of government revenue In Nigeria seems to leak away through non-compliance with the provision of tax law, and has been adjudge the most formidable attendant human practice that reduces government's revenue. Unfortunately, little attention was placed on these variables as an impediment for sustainable development, (Cobham, 2005) and (Arowomole, 2006). The ever-increasing level of non-compliance with the provision of tax laws is the major concern of

poverty as a result of low investment in social infrastructure meant for economic development of the nation as a whole. In finding solution to this therefore, tax audit is introduced into the Nigerian tax system as detiouermine to do away with such attitude of non- compliance by making the taxpayers to comply with the provision of the tax laws, since their expectation of being audited increase their level of compliance.

In view of the above, Palil and Mustapha (2011) observe that studies on the relationship between the specific or actual government spending and pending tax compliance particularly on tax Evasion, are very Limited. The acknowledgement that tax payer and especially those who pay high amount of tax will be sensitive to what the government spends their money on. It is reasonable to assume that tax payer will tend to evade tax if they perceive that the government spends tax money lavishly. Lewis (1982) cited in Halil and Mustapha (2011) suggest that attitude should be examined for the degree to which they are a product of my and misperception. He argued that when myths and misperception are replace by knowledge, a change in attitudes towards taxation will occur even if the tax payer basic ideology and values remain unchanged and the tax law is unchanged.

METHODOLOGY

RESULT AND DISCUSSION

Here a structured questionnaire was employed, the questionnaire drawn are of three sections; section one which deals with the effectiveness of the board, section two tax audit department of Katsina State Board Internal revenue Service and section three contains the role of internal tax audit department Katsina State board internal revenue service. Using frequency distribution in table of simple parentages, the data collected was thoroughly discussed.

Table 1 Tax audit developing economy in a country to ensure tax compliance

S/N	Variable	Frequency	Percent
1	Agree	55	78.6
2	Strongly Agree	8	4.3
3	Disagree	3	5.7
4	Strongly Disagree	-	-
5	Neutral	4	11.4
	Total	70	100.0

Source: Field Survey, 2018

The above Table 1 shows that 55 respondents representing 78.6% are agreed that tax audit developing economy in a country, and respondents representing 4.3% strongly agreed that tax audit developing economy, 3 respondents representing 5.7% disagree, while 4 respondents representing 11.4% are neutral on the question. Hence, the tax audit developing economy in a country and ensure compliance.

Table 2 Tax audit necessary to avoid tax compliance

Variables	Frequency	Percent
Agree	22	31.4
Strongly Agree	-	-
Disagree	10	14.3
Strongly Disagree	25	35.7
Neutral	13	18.6
Total	70	100.0

Source: Field Survey, 2018

Table 2 above shows that 35.4% are the opinion that tax audit is necessary to ensure that compliance 50% disagree while the remaining 18.6% are neutral about that. Therefore tax audit is necessary to ensure tax compliance.

Table 3 Do Tax payers comply with the provision of the law while preparing their return?

Variables	Frequency	Percent
Agree	54	77.1
Strongly Agree	-	-
Disagree	10	14.3
Strongly Disagree	2	2.9
Neutral	4	5.7
Total	70	100.0

Source: Field Survey, 2018

Table 3 above shows that, 77.1% agree that tax payers comply with the provision of the law while preparing their return, 5.7% were Neutral

that tax payers comply with the provision of the law while preparing their return 14.3% Disagree and 2.9% strongly disagree respectively. Therefore, tax payers comply with provisions of the law while preparing their return.

Table 4 Public enlightenment programme on tax audit in other to bring compliance

	Frequency	Percent
Agree	10	14.3
Strongly Agree	9	12.9
Disagree	1	1.4
Strongly Disagree	50	71.4
Neutral	-	-
Total	70	100.0

Source: Field Survey, 2018

Table 4 above, show that 14.3% agree that enlightenment programme can positively facilitate tax compliance while 12.9% strongly agree that public enlightenment programme facilitates tax compliance, 1.4% disagree and 71.4 strongly disagree that government do not made provision for public enlightenment programmed. Hence government is not making adequate enlightments to ensure compliance.

Table 5 Tax audit improvement procedure increases on tax compliance

	Frequency	Percent
Agree	7	10
Strongly Agree	15	21.4
Disagree	40	57.1
Strongly Disagree	8	11.4
Neutral	-	-
Total	70	100

Source: Field Survey, 2018

Table 5 above, show that 7 of the response which represent 10% agree that tax audit procedure increase tax compliance 15 of the respondents which represents 21.4% strongly agree improvement in tax audit procedure increases tax compliance, 40 respondents which represent 57.1%, 8 respondents which represent 11.4% disagree.

Table 6 Tax payers payment of correct amount of tax as and when due

Variables	Frequency	Percent
Agree	11	15.7
Strongly Agree	19	27.1
Disagree	34	48.6
Strongly Disagree	6	8.6
Total	70	100.0

Source: Field Survey, 2018

Table 6 shows that 11 of the respondents which represent 15.7% strongly agree that tax payers pay the correct amount of tax as when due, 19 of the respondents which represent 27.1% strongly agree that tax payers pay the correct amount of tax as when due 34 of the respondents which represents 48.6% disagree and 6 respondents which represent 8.6% strongly disagree that tax payers do not pay appropriate amount as and when due. The tax payers are not paying correct amount of tax as at when due.

Table 7 Tax authorities and non-compliance with the provision of law

Variables	Frequency	Percent
Agree	60	85.7
Strongly Agree	2	2.9
Disagree	1	1.4
Strongly Disagree	7	10
Disagree	-	-
Neutral	70	100.0
Total		

Source: Field Survey, 2018

Table 7, show that 1 of the respondents which represent 1.4% disagree that tax authorities always detect those who do not comply with the provision of law and take appropriate action against them, 2 of the respondents which represent 2.9% strongly agree, 7 respondents which represent 10% strongly disagree while the result analysis indicate on the average 60 respondents which represent 85.7% agree that tax authorities always detect those who do not comply with the provision of law and take appropriate action against them.

Table 8 Tax payers and filling of returns.

Variables	Frequency	Percent
Agree	60	85.7
Strongly Agree	2	2.9
Disagree	1	1.4
Strongly Disagree	7	10
Disagree	-	-
Neutral	70	100.0
Total		

Source: Field Survey, 2018

Table 8 above, show that 7 of the respondents which represent 10% strongly disagree that tax payers and filling of 1 of the respondents which represent 1.4% disagree that tax payers field their return correctly and promptly 2 of the respondents which represent 2.9% strongly agree while 60 respondents which represent 85.7% agree that tax payers and filling return. This implies that tax payers are filling their return.

Table 9 Tax payers and confidence in the integrity of the self

Variables	Frequency	Percent
Agree	20	28.6
Strongly Agree	4	5.7
Disagree	38	54.3
Strongly Disagree	8	11.4
Disagree	-	-
Neutral	70	100
Total		

Source: Field Survey, 2018

Table 9 above, show that 20 of the respondents which represent 28.6% agree that tax payers have confidence in the integrity of the self, 4 of the respondents which represent 5.7% strongly agree that tax payers have confidence in the integrity of the self , 38 of the respondents which represents 54.3% disagree that tax payers do not have confidence in the integrity of the self while 8 of the respondents which represent 11.4% strongly disagree that tax payers do not have confidence in the integrity of the self. This implies that tax payers have no confidence in the integrity of the self.

Table 10 Tax audit importance in tax administration and tax compliance

Variables	Frequency	Percent
Agree	57	81.4
Strongly Agree	2	2.9
Disagree	-	-
Strongly Disagree	10	14.3
Disagree	1	-
Neutral	70	100.0
Total		

Source: Field Survey, 2016.

Table 10 above, from the table the result shows that 57 respondent which represent 81.4% of the respondents, 2 respondents which represent 2.9%,

1 respondents which represent 1.4% and 10 respondents which represent 14.3% respectively, on the average 81.4% agree that audit is very important in tax administration to ensure tax compliance.

Table 11 Adequate of present tax laws in ensuring tax compliance

Variables	Frequency	Percent
Agree	9	12.9
Strongly Agree	44	62.9
Disagree	10	14.3
Strongly	7	10
Disagree	-	-
Neutral	70	100.0
Total		

Source: Field Survey, 2018

Table 11 above shows that 14.3% of the respondents disagree on the adequacy of the present position of tax law in ensuring tax compliance 12.9% of the respondent agree, 62.9% of the respondents strongly Agree positively on the position of the tax law in ensuring tax compliance, 10% strongly disagree that that position of the tax law is inadequate in ensuring tax compliance. This shows that there is no adequate of present of tax laws in ensuring tax compliance.

Table 12 Mutual relationship between tax payers and tax and tax audit department of the KSBIRS

Variables	Frequency	Percent
Agree	3	4.3
Strongly Agree	56	80
Disagree	3	4.3
Strongly	8	11.3
Disagree	-	-
Neutral	70	100
Total		

Source: Field Survey, 2018

Table 12 above show that 11.3% of the respondents strongly disagree that tax payers do not cooperate with the tax audit department at the KSBIRS 4.3% are neutral on the opinion, while 80% which is the highest percentage strongly agree that there is a mutual relationship between tax payers and KSBIRS. This implies that there is

mutual relationship between tax payers and tax audit department.

Table 13 Tax audit improves the level of tax compliance

Variables	Frequency	Percent
Agree	60	85.7
Strongly Agree	2	2.9
Disagree	-	-
Strongly	7	10
Disagree	1	1.4
Neutral	70	100
Total		

Source: Field Survey, 2018

Table 13 above shows that 85.7 % respondents agree that tax audit improves the level of tax compliance, 2.9% respondents strongly agree, 1.4% respondents were and 10% strongly disagree that tax audit do not improves the level of tax compliance. This shows that tax audit improve the level of tax compliance.

Table 14 Effective sanction on no-compliance with the tax rules and regulation

Variables	Frequency	Percent
Agree	11	15.7
Strongly Agree	17	24.3
Disagree	12	17.1
Strongly Disagree	30	42.9
Neutral	-	-
Total	70	100

Source: Field Survey, 2018

Table 14 above shows that 17.1% disagree with the effectiveness of sanction on non compliance with tax rules and regulations 15.7% respondents agree there is effectiveness on sanction of non-compliance with the tax rules and regulations 42.9% also strongly agree there is no effective sanction on non-compliance with the tax rules and regulations. This implies that there is no effective sanction on non-compliance with the tax rules and regulations.

Table 15 Skills of personnel conducting the tax audit

Variables	Frequency	Percent
Agree	40	57.1
Strongly Agree	10	14.3
Disagree	10	14.3
Strongly Disagree	10	14.3
Neutral	-	-
Total	70	100

Source: Field Survey, 2018

Table 15 shows that 14.3% of the respondents strongly agree, and disagree 57.1% agree that skills of personnel conducting the tax audit 14.3% strongly agree with the skills of the personnel conducting the tax audit. Therefore the personnel conducting the tax audit has skills

Table 16 Equipment and adequacy of personnel conducting the tax audit

Variables	Frequency	Percent
Agree	60	85.7
Strongly Agree	-	-
Disagree	1	1.4
Strongly Disagree	7	10
Neutral	2	2.9
Total	70	100

Source: Field Survey, 2018

Table 16 shows that 85.7% respondents agree that there is equipment and adequacy of personnel, 2.9% Neutral, 1.4% respondents disagree and 10% respondents strongly disagree. Therefore adequate equipment and personnel are available in conducting tax audit.

CONCLUSION AND RECOMMENDATION

Conclusion

It can be deduced from the foregoing discussions that:

1. Tax audit influence tax compliance in Katsina state board of internal revenue influences the performance of KSBIRS.
2. Public enlightenment programme can positively facilitate tax compliance in the KSBIRS.
3. There is low level of self-assessment practice in the operation of KSBIRS especially from those engaged in business.

Recommendations

1. Government through the revenue service (KSBIR) should increase the level of awareness and have more workers so as to

defray and hard reach areas during the collection of the tax.

2. People (potential tax-payers) are mostly unaware that, refusing to file returns as when due constitute noncompliance and attracts penalties.
3. The government through the service (KSBIR) should encourage tax payers to file their return correctly as and when due.

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