Tax Audit and Investigation as a Stimulant for Growth in Internally Generated Revenue in Nigeria.

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Abstract: *The study was carried-out to assess tax audit and investigation as a stimulant for growth in internally generated revenue in Nigeria. Data were sourced from secondary means using Central Bank of Nigeria Statistical Bulletin from 1988 to 2013. Regression analysis was used to analysed the data and test the hypothesis formulated. The result obtained was further tested with chow test regression technique. Our analysis of data revealed that, the tax audit and investigation is a stimulant for growth in internally generated revenue in Nigeria. We recommend that tax audit and investigation should consistently be carried out in order to achieve the objective for which self-assessment scheme and tax audit department is established for.*

Key words: tax, audit, investigation, and revenue

Introduction

Governments require funds to finance their activities. They must find ways of generating money to pay for their expenditure. Some of the major avenue through which government does this, is through taxation, fines, royalties, penalties, loans, grants, donations etc. Therefore, a tax is a compulsory payment made by individuals and organizations to the government in accordance with predetermined criteria for which no direct or indirect benefits are received by the taxpayer in atonement for the tax paid. According to Mu'azu (2012) a tax is a compulsory levy by government through its agencies on the income, consumption and capital of its subjects. These levies are made on personal income such as salaries, business profit, interest, dividend, discount or royalties to obtain revenue. It is levied against company profit, petroleum profit, capital gains and capital transfer. Tax is a payment made by an individual or corporate entity into the coffers of government for the provisions of basic amenities. Auditing is an independent examination and expression of opinion on the financial statement of an enterprise by an appointed auditor in accordance with his terms of engagement and compliance with statutory regulation and professional requirements (Daniel, 1999).

A tax audit is an examination of whether a taxpayer has correctly assessed and reported their tax liability and fulfilled other obligations. Tax audits are often more detailed and extensive than other types of examination, such as general desk checks, compliance visits/ reviews or document matching programmes. There are, of course, exceptions to this rule. Conditions and approaches vary from country to country. Generally, an audit will examine the issues seen as most significant to achieving an accurate assessment of a taxpayer's tax liability. Typically, these issues will include any indications of significant unreported income (for example, as may be suggested by a very low ratio of net/gross business income ratio computed from a taxpayer's return) or potentially over-claimed deduction items that may be apparent from an examination of a taxpayer's tax return and other information. As well as income tax returns and other reporting, this includes supporting documents, which the taxpayer should normally have. In the case of business audits, national law often requires a business to obey certain bookkeeping and accounting standards. The audit may also involve physical enquiries, such as the inspection and examination of goods in stock, premises etc. (Forum on Tax Administration's Compliance Sub-Group (FTACSG), 2006). According to FIRS (2015) tax audit can 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. Mu'azu, (2012), opined that tax audit is a process where the internal revenue service tries to confirm the numbers that one has put on the tax return. ICAN (2012) defined tax compliance can be defined as 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 .

Statement of Problem

Tax audit and investigation is geared towards helping the government generate adequate revenue which will assist in taking care of public wants. Despite the continuous tax reforms and other tax related enlightenment exercises, government has not generated the needed revenue through tax. The objective of a good tax system is to generate adequate revenue, induce voluntary compliance by tax payers and increased appropriate tax claims by taxpayers. However, despite the above stated objective of a good tax system, the system has failed to meets these objectives.

Therefore, it becomes worrisome that tax system cannot meet it primary objectives in Nigeria, which anchors in generating adequate revenue for the government. This is due largely as a result of egregious activities of taxpayers, who apply all sorts of techniques to avoid taxes or out rightly evade taxes.

Objective of the Study

The Nigeria's economy has been grossly dependent on the revenue accruing from oil for over five decades, as a result of this; it has plunged into recession as a result of dwindling fortunes of oil prices in international market and the destruction of oil and its allied installations in the Niger Delta region. It has become imperative at this point to enhance revenue accruing from other sources especially taxation to generate adequate revenue internally. Therefore, the objective of this paper is to ascertain the extent to which tax audits and investigations would act as a stimulant for growth in internally generated revenue in Nigeria.

Hypothesis

The following hypothesis was tested:

H_o: Tax audit and investigation is not a stimulant for growth in internally generated revenue in Nigeria;

LITERATURE REVIEW

Taxation, worldwide, constitutes a major source of revenue to governments for funding their capital and recurrent expenditures. In recent times, there has been the urge for tax authorities in Nigeria to carry out spontaneous and sporadic tax audits and investigations on taxpayers, suspected of tax evasion or tax fraud. In doing so, the tax authorities, in discharge of their duties as contained in the enabling tax laws, adopt various methods in holding taxpayers more accountable. The taxpayers, on the other hand, are quick to resist any additional tax burden that might drain their pockets. While tax authorities do have statutory powers to conduct tax audits and investigations on taxpayers to ensure

that the revenues due to government are not lost by way of false returns, these powers are, however, not without legal limits.
Tax audits and investigations are very complex and tasking processes and as such, tax managers and their consultants must understand the 'rules of the game'. On the other hand, according to the Federal Inland Revenue Service (FIRS), (2012), minimum tax is justifiable on the premise that every asset generates income. The minimum tax regulations are therefore anti-tax avoidance measures whether or not the affected company declares a profit, or the company was dormant during the relevant year of tax assessment. Where a company is dormant, minimum tax is usually charged on the company's net assets or on its share capital, whichever is the higher of the two.
An audit is an examination usually by an independent person, on the financial statement of an organisation and verification of a company's financial and accounting records and supporting documents by a professional auditor in public practice after which an opinion is given on the state of affairs of such financial statement. The primary objective of audit is to express an opinion on the financial statements of an enterprise as to whether:

- Proper books have been kept,
- The financial statements are in agreement with the books,
- The requirements of the applicable legislations, for example, the Companies and Allied Matters Act (CAMA) 1990 (as amended) have been complied with,
- Applicable accounting standards (both local and international) have been complied with,
- The financial statements give a true and fair view of the state of the financial affairs of the enterprise as at its balance sheet date,
- The financial statements give a true and fair view of the result of the operations of the enterprise for the period under consideration.

According to Adeiran, Alade and Oshode (2014), tax audit simply means the advanced part of auditing practice that involves examination of books of account in other to check if the assessable profit showed by the tax payer is correct. Tax audit is an additional audit to the statutory audit and is carried out by tax officials from relevant authority. The approach and scope of work would be slightly different from that to be carried out for an audit under CAMA, 1990. The objectives of tax audit are to enable the tax auditors determine whether or not: adequate accounting books and records exist for the purpose of determining the taxable profits or loss of the taxpayer and consequently the tax payable. On the other hand tax audit is a specific to determining the following:

- if the tax computations submitted to the authority by the taxpayer agree with the underlying records,
- all applicable tax legislation have been complied with, provision of an avenue to educate taxpayers on various provisions of the tax laws, discourage tax evasion,
- detect and correct accounting and/or arithmetic errors in tax returns; provide feedback to the management on various provisions of the law and recommend possible changes,
- identify cases involving tax fraud and recommend them for investigation,
- forestall a taxable person's failure to render tax returns,
- forestall a taxable person rendering incomplete or inaccurate returns in support of the self-assessment scheme.

Every observation of the specific duties of tax audit and investigation above would create a mind-set that tax revenue generation will increase with the introduction of the system.
Onoja and Iwarere (2015), identified that a successful audit must follow a pattern. They opined that for a successful audit, it is necessary that the auditor organizes his work in such a way that the assignment is accomplished completely and efficiently, using competent personnel.
The Audit unit of the Federal Inland revenue Service (FIRS) employed audit tools to identify tax evaders and to officially carry-out enforcement on any taxpayer. Such audit tools include the risk engine tool for identification of tax evaders or non-compliant taxpayers. Companies flagged by such tools are either subject to tax audit or tax investigation. In line with its statutory mandate and the provisions of Sections 58 and 60 of the Companies' Income Tax Act (Cap. 21 LFN 2004) and Sections 26 and 27 of the Federal Inland Revenue Service (Establishment) Act 2007 (Onoja and Iwarere 2015).

The FIRS has created some units and department with the target of increasing the revenue accruing from the tax nets. These include the following departments: Process Operations Department (POD), which had five units, including, (i) Information Communication and Technology Unit; (ii) Bank Collection Services Unit; (iii) The Return and Payment Processing Unit; (iv) Tax Refund Processing Unit; and, (v) Procurement and Due Process Unit. However, these new processes and units faced serious challenges in the light of the existence of fraud syndicates and the absence of a secured electronic system.

In order to reduce incidences of penalties, suffered by taxpayers, arising from late payments of taxes and to ease the workload of FIRS, the tax authorities introduce the “Self Assessment Regime”. Prior to 1998, tax payers in Nigeria (persons and corporations) were assessed to tax by the relevant tax authorities; a system otherwise known as government assessment. With the introduction of self-assessment scheme into the Nigerian tax system in 1998, tax payers are now required to file in their tax returns independently. This practice informed the need for tax audit, 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 or tax avoidance (Kennedy & Obi 2014). Self assessment regime requires the taxpayers to compute their tax liabilities, file and pay accordingly on or before the stipulated date to reduce incidences of penalties for late payments through an authorized agent, which may be a member of recognized professional accountancy body in Nigeria (ICAN, ANAN, and CITN). According to Ogbonna (2014), self-assessment tax regime is a system of tax administration whereby the tax payer is granted the right, by law, to compute his own tax liability, pays the tax due (at the designated bank) and produces evidence of tax paid at the time of filing his tax return at the tax office, on due date. On the other hand, the tax authority has the responsibilities of enablement to and checks on the taxpayers to ensure compliance with tax administration process. This means that the self-assessment scheme is characterized by partnership and shared roles and responsibilities between the taxpayer and the tax authority (Appah, 2013). According to Oyedele (2012), “on December 12, 2011 the Management Board of the Federal Inland Revenue Service (the Board) in exercise of the powers conferred on it by Section 61 of the Federal Inland Revenue Service (Establishment) Act 2007, with the approval of the Minister of Finance; gazette a Regulation dated 19 December 2011 modifying the processes and procedures for self assessment returns”. This review in the self assessment regulations covers the following tax returns:

- Companies Income Tax Act (CITA),
- Education Tax Act (ETA),
- Petroleum Profit Tax Act (PPTA),
- Personal Income Tax Act (PITA),
- National Information Technology Development Act (NITDA),
- Value Added Tax Act (VATA).

The capital gain tax was not particularly mentioned in the review; nevertheless, all taxes under the FIRS Establishment Act are stated as being part of the regulation. Taxpayers mostly take advantage of the self-assessment regime to manipulate its tax burden in such a manner that the revenue accruable from different forms of taxations have not significantly reflected the primary objective of a good tax system.

The Audit department is saddled with the following objectives:

- investigation of civil and criminal cases and violations of tax laws;
- installation of an effective database and efficient intelligence network;
- prosecution of violators of the tax laws to serve as deterrence; and,
- fostering closer working relationships with other government agencies.

Thus, the primary purpose of tax audit is to ascertain the extent to which taxpayers may have complied with the relevant statutory provisions of the tax Act concerning their audited financial statements and other tax-related returns. It thus helps to sustain the confidence and integrity reposed in the self-assessment scheme currently in force in Nigeria, thereby enhancing voluntary compliance. It is therefore expected that the more taxpayers comply with relevant statutory provisions of the tax, the more revenue is generated into the pockets of the government, hence increasing internally generated revenue. However, how well this introduction of tax audit has helped enforce tax compliance among companies has attracted commentaries and debates in developed economies. As for developing countries, less is said about it, yet a crucial issue that ought to receive adequate attention in view of its strategic stance at enforcing compliance to the relevant tax laws and by consequence, a boost in government tax revenue base.

The scope and type of audit steps to be executed would depend on the type of audit to be performed, the underlying trigger and the objectives to be achieved. At present, FIRS is involved in the following types of audit:

Registration Audit – The purpose of this audit is to bring all relevant companies and individuals into the tax net. The audit involves obtaining information on businesses from the Corporate Affairs Commission (CAC), the Nigeria Customs Service, other third parties and routine visits to premises of suspected non-registered taxpayers in order to ensure that all companies and individuals who fall under FIRS' tax jurisdiction are properly registered. In some cases, information in this regard can be obtained from other FIRS departments who may alert the Tax Audit Processes and Policies Department on the need to carry out registration checks regarding certain companies and individuals who are outside the FIRS tax net. At the end of each registration audit, companies and individuals found to be outside tax net are usually registered and given Taxpayer's Identification Number, and a Permanent Note Jacket file is opened.

Advisory Audits – A visit to newly established businesses advising them of their obligations in terms of tax types, filing of declarations and payment of amounts due, records to be maintained and likelihood of audit if it is considered to be a risk and the sanctions that might apply for non-compliance. Obtaining information on newly registered companies from CAC and visiting their offices to advise them of their obligations under the law.

Record Keeping Audits – A check on enterprises that may have a reputation of not keeping adequate records. The visit would point out the obligations of the taxpayer as provided for in the CITA Section 63 regarding the keeping of records. Penalties are to be computed in line with CITA Section 92.

Desk Audits – Audits will generally require field visits. However, it may be possible to undertake some basic checks from the tax office. These can be conducted with regards to specific issues of a small enterprise when the auditor is confident that all necessary information can be ascertained by conducting the examination in the office. They can also be used as a preliminary examination of declarations/returns, analyzing ratios and cross-checking information to determine if an audit is warranted.

Single Issue Audits – These are quick response audits with a narrow focus. Their limited objectives focus on a single tax type or a single period concerning an individual taxpayer as opposed to the comprehensive audit. For instance, FIRS may only be examining whether the taxpayer has met their obligations in respect of employment – Pay-As-You-Earn, Withholding Tax (WHT), and Value Added Tax (VAT) or Company Income Tax (CIT).

Refund Audits – Verifying the taxpayer's right to a refund prior to processing the refund in accordance with the provisions of Section 23 of the FIRS Establishment Act. Therefore, audits are usually undertaken for the first refund claim as well as where the refund claims varies significantly from established patterns and trends.

Audit Projects – Audit can be organized as a separate project for specific groups of taxpayers or tax types (e.g. VAT, WHT) on a regional or national scale. These projects may cover an industry (e.g. construction) or a line of business (e.g. retail) and/or certain items from the declaration or profit and loss account (e.g. capital allowance). They will consist of specific checks and are used to address a particular risk or to establish the degree of non-compliance in a particular sector.

Comprehensive (or full) Audits – All tax obligations over one or more tax periods are typically referred for extensive examination when discrepancies are uncovered during more routine single issue audits. As they are usually time consuming, comprehensive audits should only be applied to taxpayers when there is evidence of underreporting that will have an impact across taxes.

Mergers and Acquisition Audits – As part of mergers and acquisition strategies, it is usual for companies involved in the process to investigate their potential partners. Such investigations are undertaken by independent professional accountants and lawyers on behalf of the parties involved. A tax audit shortly after a merger or an acquisition has enormous potential for audit yields as the new entity's financial statements would often materially differ from its previous components.

Public Offers Audit – Securities and Exchange Commission rules require companies involved in a public offer to disclose their financial history covering a period of at least five years to the investing public. Again, professional accountants, lawyers and other professionals usually carry out a number of investigations in order to provide for public disclosure the information required to be disclosed by the regulatory authorities. A tax audit shortly after a company has made a public offer has enormous potential for audit yields.

Post Pioneer Period Audits – During its pioneer status period, a company would not only operate without paying taxes but would also carry forward any losses sustained from the commencement of operations to the end of its pioneer status period. In this regard, tax audit would serve to revalidate the losses and capital allowances carried forward.

Theoretical Framework

Taxation as a veritable source of government revenue has undergone through reforms and policies with the view of making the system more effective. The policies are targeted at bringing more taxpayers into tax net and increasing the revenue base of the government through the system. No individual or corporate entity can willingly comply with paying the required tax, if there are no checks and punishments for non-payment. Ezugwu and Agbaji (2014) identified two tax policy theories. These are: Economic based theory; and Psychological based theory. Therefore, both theories are examined below, however, this study is guided by the Economic Based Theory.

Economic Based Theory

The eceonomic based theory is also known as deterrent theory and they place emphasis on incentives. The theory suggests that taxpayers are amoral utility maximizers- they are influenced by economic motives such as profit maximization and probability of detection. As such they analyzed alternative compliance paths for instance, whether or not to evade tax. The likelihood of being detected and the resulting repercussions and then select the alternative that maximizes their expectations after tax returns after adjusting for risk. Therefore, according to this theory, in other to improve internally generated revenue, audit and penalties for noncompliance should be increased.

Psychological Theory

Psychological theory on the other hand postulates that taxpayers are influenced to comply with their tax obligations by psychological factors. The theory suggests that a taxpayer may comply even when the probability of detection is low. As opposed to the economic theory that emphasize increased audit and penalties as solutions to compliance issues, psychological theory placed emphasis on changing individual attitudes towards tax systems.

Empirical Review

In order to effectively evaluate the research on hand, the works of other researchers who have worked in similar or related research works were reviewed. This would help identify the research gap the present research work will be filling. In the light of the foregoing, Onoja & Iwarere (2015), carried a research which seek to determine the effect of tax audit and revenue generation in FIRS. This study also implored questionnaire as a tool for gathering data, analysis of variance (ANOVA) was used as a statistical technique for testing the hypotheses formulated. The research discovered that: tax audit has significant effect on revenue generation in FIRS and tax audit has a positive relationship in with revenue generation. Ezugwu & Agbaji (2014), discovered that internally generated revenue (IGR) before the introduction of Taxpayers Identification Number (TIN) within (2003 to 2007) was not significant. The research was carried-out to assess the contributions of internally generated revenue before (TIN) on total tax revenue in Kogi State. They employed secondary data comprising of "Total Tax Revenue Before TIN (TRBT) and internally Generated Revenue Before TIN (IGRBT), which were regressed against each other. The findings depicts that the introduction of TIN has positively affected the internally generated revenue. The essence of TIN is to capture more taxpayers into tax net. Where the number of taxpayers increases, it is most unlikely that the amount of tax paid will decrease.

Ogbonna and Appiah (2014), carried out a research on " self assessment scheme and revenue generation in Nigeria". Their study examines self assessment scheme and revenue generation in Nigeria. Questionnaires were used as the source of data collection, which were analysed using relevant analytical tool. The research yielded that self assessment compliance rate significantly influence revenue generation in Nigeria. This in line with the objective of for which tax audit was set to achieve. Afuberoh, and Okoye (2014), took their research to find out the impact of taxation on revenue generations in Nigeria using Federal Capital Territory and selected states as a case. They used primary data and employed regression analysis as a statistical tool, their findings is that taxation has significant contributions to revenue generation and taxation has a significant contribution on Gross Domestic Product (GDP). Kennedy & Obi (2014), examines the impact of tax audit and other qualitative attributes on the tax compliance level of companies in Nigeria. They used primary data to obtain data from staff of selected companies from the geo-political zones of Nigeria. Ordered Logistic Regression technique was employed to analyse the responses. The result showed that there exists a positive relationship between tax audit and tax compliance. The result also revealed that the probability of being audited, perception on government spending, penalties and enforcement, the joint effect of tax audit and penalties have a tendency to significantly influence tax compliance in Nigeria. They suggested that tax audit on companies should be more effective and efficient to enhance revenue earning for the government. This is in line with the objective self assessment regime and tax audits and investigations.

Eze & Appah (2013), they examined the impact of tax audit on tax compliance in Nigeria. They obtained data for evaluation of the hypotheses from mainly primary sources. To achieve this objective, data were collected from primary and secondary sources. These data were tested using diagnostic tests, augmented dickey-fuller, ordinary least square and granger causality. The empirical analysis provided a significant relationship between random tax audit, cut-off tax audit and conditional tax audit on tax compliance in Nigeria. On the basis of the empirical result, the paper concludes 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. Therefore, the paper recommends amongst others that government should show some degree of accountability and transparency on the revenue collected to make citizens understand the connection between tax revenue and expenditure; the government should implement the relevant tax laws faithfully, equitably and fairly irrespective of the persons status and organization concerned; the relevant tax authorities at all levels should improve on the standard of tax audit employed for effectiveness and efficiency in tax administration to reduce the high level of tax evasion on those that are self-employed.

Akintoye & Tashie (2013), examined the effect of Tax compliance on economic growth and development in Nigeria. According to the researchers, tax compliance here is proxied in willingness of the citizens to pay tax. This is because tax revenue is an important instrument for economic growth and development in many developing economies like Nigeria, since the internal revenue generated through taxes go a long way in providing funds for the provision of public goods. They also gave an insight into the factors that influence the willingness of citizens to comply by a comparative analysis of the willingness to pay tax by citizens in two(2) large States of the Federation, Lagos and Oyo State. Primary data were collected through the administering of questionnaires to self employed in each senatorial district in Oyo and Lagos States. Frequencies and percentages were used to measure the demographic variables of the respondents, and also the factors that affect the willingness to pay tax, while the Chi-square technique was used to measure the difference between willingness to pay tax of citizens in Lagos and Oyo States. The research showed that many Nigerians are complying with tax payment and that the willingness of citizens to pay tax in Lagos State is significantly higher than that of Oyo State. From the list of factors that were tested for, Trustworthiness of government, Provision of Infrastructural Amenities, Tax Accountability by Government, Level of government delivery, Income, Morale Ethics, Tax Knowledge, Tax Rate, and The System of Tax Payment were found to influence the willingness to pay tax. The conclusion is that compliance through the willingness of citizens to pay tax is very important and cannot be ignored. It is suggested that government should pay attention to the factors that influence the willingness of citizens to pay tax and improve on them, thereby improving peoples‟ willingness to pay tax, government revenue and economic growth and development of the nation generally.

Adediran Alade and Oshode (2012), in their research examine the impact of tax audit and investigations on revenue generation in Nigeria. Pearson correlation coefficient was used to analyse the questionnaire which were the source of data gathering. It was gathered that tax audit and investigation can also stamp out incidents of tax evasion in the country. Mu'azu (2012) on his own, worked to determine the effect of tax audit on tax compliance in Nigeria, using Bauchi State as a case. He found out that: the Relevant Tax Authority (RTA) employed tax audit towards achieving target revenue, tax audit reduced the problem of tax evasion, taxpayer do not usually cooperate with tax audit personnel during tax audit exercise.
Okoye, Akanbor and Obara (2012), investigating the causes of low level of tax compliance in the informal sector in Nigeria and the effect of such, on economic growth and development, with a view to designing appropriate strategies for promoting sustainability of tax compliance in the sector. In order to achieve the objective of the research, they formulated some research questions, hypotheses were formulated. They drew the population for the study from both tax officials and business owner managers in the south-east region of Nigeria, to gather the primary data for the study. The secondary data were sourced from the Central Bank of Nigeria (CBN) statistical bulletin for a time period of 20 years (i.e 1990-2009). The Pearson Product-Moment Co-efficient of Correlation was the statistical technique employed in testing the stated hypotheses. They found out that several causes of tax compliance problem in the informal sector in Nigeria. Among which are high tax, rate, inadequate provision of public goods and services, lack of transparency and accountability of public funds, poor funding of tax boards, absence of functional tax audit, lack of reciprocity and legitimacy, ineffective deterrence measures, out-dated tax laws, lack of public trust, and corrupt practices of tax officials. Their findings collaborate the findings Eze & Appiah (2013), which required that government should show some level of transparency and fiscal openness to assist ease of compliance among taxpayers.

Ojonta (2011), carried out a research to assess how tax audit and investigation has ensured voluntary compliance by taxpayers in Nigeria. The research went further to examine: the extent to which tax audit and investigation have reduced tax evasion; to examine if there is any positive effect on the introduction of self-assessment to the complexity of income tax administration and it also examine the effect of inducement on tax officials in the performance of their duty. The research adopted the primary source of data within its scope of study. The study reveals that the introduction of self-assessment has played a major role in collection of taxes by adding credibility to the process and that the absence of functional tax audit and investigation units is largely the bane of non-compliance and tax evasion.

This study is aimed at evaluating tax audit and investigations as a stimulant to growth in internally generated revenue in Nigeria. The audit department was created by the FIRS in 2006, to look into the assessment claims of taxpayers especially the self assessment regime which was introduced in 1998. This is achieved by comparing the contributions of the following taxes eight (8) year pre-creation of audit department ending in 2005 and post creation of audit department from 2006 ending 2013 in order to understand the effect of introduction tax audit;

- Companies Income Tax Act (CITA),
- Education Tax Act (ETA),
- Petroleum Profit Tax Act (PPTA),
- Personal Income Tax Act (PITA),
- National Information Technology Development Act (NITDA), - Value Added Tax Act (VATA).

METHODOLOGY.

Quasi-experiment design was adopted for the study. In quasi-experimental design, the researcher is interested in determining impact of certain action on a subject matter. In this study, the research is interested in evaluating tax audits and investigations as a stimulant to growth in internally generated revenue in Nigeria between 1998 when self assessment scheme was introduced to 2013 using 2006 as a benchmark year, given that in 2006 a tax audit department was created by FIRS. The internally generated revenue will be proxied by: Company Income Tax (CIT), Education Tax (ET), Petroleum Profit Tax (PPT) and Value Added Tax (VAT). All the data were source from 2013 edition of the Central Bank of Nigeria (CBN) statistical bulletin.

Regression technique was used as data analysis tool**,** which test the relationship between the dependent and independent variables. Also the variables were further tested by use of Chow test of structural stability version of Ordinary Least Square method of econometrics regression was adopted to test the formulated hypothesis. Chow Test is a kind of F-test propounded by chow and is used on series of data to determine the structural effect of a break.

Here we want to ascertain out whether the time series data in our variables had a structural break following the introduction of 2006 tax audit department. The model used the F-test to determine whether the introduction of Audit department in 2006 has significant measurable effect on the study period and the aim is to determine whether a single regression covering the period before the 2006 and after is more efficient than two separate regression involving the spitting of data into two samples. One regressing the period before and the other regressing the period after 2006. If the regression model covering both periods (pooled) is more efficient than the separate regressions, it means that the introduction of Audit department in 2006 has no impact. Here the internally generated revenue is proxied

MODEL SPECIFICATION

1. A single or pooled regression to fill the series of data (before and after) the coming into effect the 2006 audit department on how it affects internally generated revenue is given by:

$Y_1 = a_1 + b_1 x_1 + \mu 1$

Where:

Y_1 = total federally internally revenue
X_1 = {CIT+ET+PPT+VAT}
b_1 = regression coefficient
a_1 = constant
μ = error term

2. Regression for the period 1998-2005 (Pre creation of audit department-2006)

$Y_2 = a_2 + b_2 x_2 + \mu_2$

where

Y_2 = total federal internally generated revenue pre creation of audit department
X_2 = {CIT+ET+PPT+VAT}
b_2 = Regression coefficient
a_2 = constant
μ = error term

3. Regression for the period 2006-2013 (Post creation of audit department)

$Y_3 = a_3 + b_3 x_3 + \mu_3$

where

Y_3 = total federal internally generated revenue post creation of audit department
X_3 = {CIT+ET+PPT+VAT}
b_3 = Regression coefficient
a_3 = constant
μ = error term

Chow test is thus determined by

$$F = \frac{RSS_1-(RSS_2+RSS_3)/K}{(RSS_2+RSS_3)/N-2K}$$

DECISION:

If the Chow statistical test is greater than the tabulated value, the null hypothesis will be rejected and verse versa.

Data presentation and Analysis

Table 1 in appendix shows the total federally collected revenue and indirect taxes from 1998 to 2013 obtained from statistical bulletin of Central Bank of Nigeria. To show whether this model is reliable, the F-statistics and probability result indicates that the model is reliable with a value of F-statistic of 38.46167 and prob (f-statistic) at 0.000032 as shown in table 2 in the appendix. The data was tested for normality using Jarque-Bera test result for normality of Residuals of the estimated model. The result indicates that the model is normal at probability of 0.589754. however, the model was tested for serial correlation test. The test was carried out using Breusch-Godfrey serial correlation as shown in table 3 in appendix. The result shows no serial relationship between the dependent and independent variables at f-statistic test of 1.070606 and prob(f-statistic of 0.401174. The model was tested for Heteroskedasticity, using Heteroskedasticity Test: Breusch-Pagan-Godfrey and the result shows no heteroskedasticiticity between the dependent and independent variables at f-statistic of 0.451351, prob(f.statistics) of 0.513457 and observed R^2 of 0.503315. The result therefore indicates that at 5% level of significant, that there is a significant relationship between the dependent and independent variables. Therefore we reject the null hypothesis and accept the alternate hypothesis. This implies that "Tax audit and investigation is a stimulant for growth in internally generated revenue in Nigeria". To further substantiate the result as shown above, the model was subjected to a choi test. The model specified that year 2006 was the year of break (i.e, the year the tax audit department was introduced by FIRS to check if tax claims as submitted by taxpayers as a result of self-assessment scheme introduced in 1988 by the same body has achieved its objective of increasing the tax revenue. The result indicated that there were no structural changes in the indirect tax income pre and post 2006. However, the result shows that indirect tax system has significantly affected the total federally collected revenue. These were analyzed in table 5 of the appendix. The findings corroborates the result earlier obtained in the paragraph above.

CONCLUSIONS AND RECOMMENDATIONS

The research therefore concludes that there Tax audit and investigation is a stimulant for growth in internally generated revenue in Nigeria. From the analysis carried out as attached, internally generated revenue from the different sources of tax revenue increased progressively with the introduction of tax audit by the FIRS. Taxpayers are fairer in their disclosures with the self assessement returns to FIRS knowing that they would be audited in future. We recommend that tax audit and investigation should consistently be carried out in order to achieve the objective for which self-assessment and tax audit department is established for as have been pointed out earlier in literature review. Hence, tax audit will enhance the internally generated revenue.

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Appendix

Table 1: Statistical Data

Total Federally Collected Reven		indirect tax				
year	Amount in billions					
1998	463.61	109.44				
1999	949.19	119.80				
2000	1,906.16	136.89				
2001	2,231.60	186.61				
2002	1,731.84	219.14				
2003	2,575.10	259.23				
2004	3,920.50	268.12				
2005	5,547.50	169.68				
2006	5,965.10	173.17				
2007	5,727.50	314.55				
2008	7,866.59	404.53				
2009	4,844.59	479.31				
2010	7,303.67	549.26				
2011	11,116.90	649.62				
2012	10,654.75	672.15				
total	72,804.59	4,711.49				

Source: CBN statistical Bulletin

Table 2
Dependent Variable:
TOTAL_FEDERALLY_COLLECTED REVENUE
Method: Least Squares
Date: 12/07/16 Time: 10:47
Sample: 1998 2012
Included observations: 15

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INDIRECT_TAXES	15.08128	2.431779	6.201747	0.0000
C	116.6097	886.5348	0.131534	0.8974

R-squared	0.747385	Mean dependent var	4853.640
Adjusted R-squared	0.727953	S.D. dependent var	3341.624
S.E. of regression	1742.929	Akaike info criterion	17.88809
Sum squared resid	39491416	Schwarz criterion	17.98249
Log likelihood	-132.1607	Hannan-Quinn criter.	17.88708
F-statistic	38.46167	Durbin-Watson stat	1.125542
Prob(F-statistic)	0.000032		

DIAGNOSTIC TESTS

Normality test

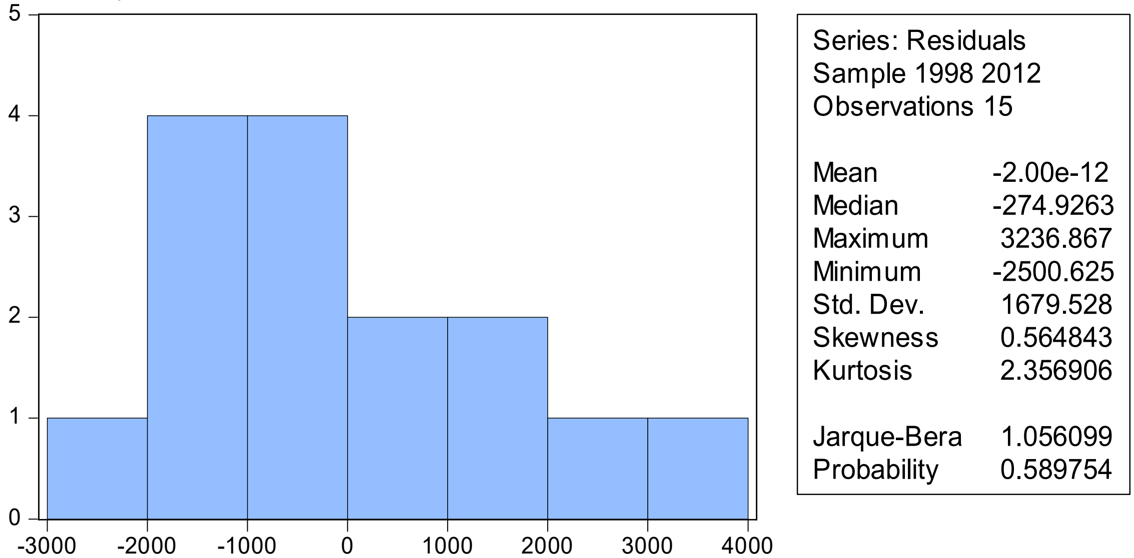

Figure 1: Jarque-Bera test result for normality of Residuals of the estimated model

Table 3: Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.605909	Prob. F(2,11)	0.2444
Obs*R-squared	3.389944	Prob. Chi-Square(2)	0.1836

Test Equation:
Dependent Variable: RESID
Method: Least Squares
Date: 12/07/16 Time: 10:49
Sample: 1998 2012
Included observations: 15
Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INDIRECT_TAXES	0.024212	2.332526	0.010380	0.9919
C	-21.63015	852.1328	-0.025384	0.9802
RESID(-1)	0.520462	0.291551	1.785147	0.1018
RESID(-2)	-0.261283	0.298413	-0.875573	0.4000

R-squared	0.225996	Mean dependent var	-2.00E-12
Adjusted R-squared	0.014904	S.D. dependent var	1679.528
S.E. of regression	1666.965	Akaike info criterion	17.89858
Sum squared resid	30566504	Schwarz criterion	18.08739
Log likelihood	-130.2393	Hannan-Quinn criter.	17.89656
F-statistic	1.070606	Durbin-Watson stat	2.020312
Prob(F-statistic)	0.401174		

Table 4: Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.451351	Prob. F(1,13)	0.5135
Obs*R-squared	0.503315	Prob. Chi-Square(1)	0.4780

Scaled explained SS	0.256486	Prob. Chi-Square(1)	0.6125

Test Equation:
Dependent Variable: RESID^2
Method: Least Squares
Date: 12/07/16 Time: 10:50
Sample: 1998 2012
Included observations: 15

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3586256.	1647271.	2.177089	0.0485
INDIRECT_TAXES	-3035.642	4518.492	-0.671826	0.5135

R-squared	0.033554	Mean dependent var	2632761.
Adjusted R-squared	-0.040788	S.D. dependent var	3174446.
S.E. of regression	3238538.	Akaike info criterion	32.94271
Sum squared resid	1.36E+14	Schwarz criterion	33.03711
Log likelihood	-245.0703	Hannan-Quinn criter.	32.94170
F-statistic	0.451351	Durbin-Watson stat	1.541230
Prob(F-statistic)	0.513457		

Table 5: Chow Breakpoint Test: 2006
Null Hypothesis: No breaks at specified breakpoints
Varying regressors: All equation variables
Equation Sample: 1998 2012

F-statistic	1.610711	Prob. F(2,11)	0.2435
Log likelihood ratio	3.852813	Prob. Chi-Square(2)	0.1457
Wald Statistic	3.221423	Prob. Chi-Square(2)	0.1997

Test for Equality of Means Between Series
Date: 12/07/16 Time: 11:08
Sample: 1 7
Included observations: 7

Method	df	Value	Probability
t-test	12	3.755366	0.0027
Satterthwaite-Welch t-test*	7.201218	3.755366	0.0068
Anova F-test	(1, 12)	14.10277	0.0027
Welch F-test*	(1, 7.20122)	14.10277	0.0068

*Test allows for unequal cell variances

Analysis of Variance

Source of Variation	df	Sum of Sq.	Mean Sq.

Between	1	253295.8	253295.8
Within	12	215528.5	17960.71
Total	13	468824.2	36063.40

Category Statistics

Variable	Count	Mean	Std. Dev.	Std. Err. of Mean
POST_INDIRECT_TAXES	7	463.2271	180.6169	68.26677
PRE_INDIRECT_TAXES	7	194.2100	57.43649	21.70895
All	14	328.7186	189.9037	50.75389

Test for Equality of Variances Between Series
Date: 12/07/16 Time: 11:16
Sample: 1 7
Included observations: 7

Method	df	Value	Probability
F-test	(6, 6)	9.888738	0.0134
Siegel-Tukey		0.638877	0.5229
Bartlett	1	6.079941	0.0137
Levene	(1, 12)	6.488880	0.0256
Brown-Forsythe	(1, 12)	5.613337	0.0354

Category Statistics

Variable	Count	Std. Dev.	Mean Abs. Mean Diff.	Mean Abs. Median Diff.	Mean Tukey-Siegel Rank
POST_INDIRECT_TAXES	7	180.6169	142.1233	139.8257	6.714286
PRE_INDIRECT_TAXES	7	57.43649	46.81714	45.73143	8.285714
All	14	189.9037	94.47020	92.77857	7.500000

Bartlett weighted standard deviation: 134.0176