

*Full Length Research*

# Tax audit and investigation as imperatives for efficient Tax Administration in Nigeria

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The aim of this paper was to substantiate tax audit and investigation as imperatives for the achievement of an efficient tax administration in Nigeria. The study adopted an expository approach using content analysis of existing literatures. The doubt and sociological theories were used to firm up the conceptualization of the topic. The study revealed that tax audit and investigation are inevitable to improve on the collection of tax revenues in Nigeria. The study also confirmed that there is a high prevalence of non-compliance currently among individuals and companies in the country. The paper, therefore, called on the government to provide an enabling legislation to make non-compliance with tax laws a more serious offence with stiffer penalties. This paper has added fresh authoritative literature to the field of taxation in Nigeria and would prove useful to other tax researchers, the relevant tax authority administrators and other policy makers in Nigeria.

**Key Words:** Tax audit; tax investigation; tax administration; relevant tax authority; non-compliance.

## INTRODUCTION

### Background of the study

Tax audit and investigation find a place of relevance in tax administration in Nigeria because of the frequent reports of tax evasion and avoidance involving people and organizations in the country. It is an acceptable position universally that nations of the world depend on taxation as a means of wealth creation and employment and for funding important developments (Adeniran, Alade, and Oshode, 2013; National Tax Policy Document, page 35). This understanding informs the critical need for putting in place measures of the nature of tax audit and investigation to ensure that government does not lose the needed revenues to the unpatriotic elements and business entities in the relevant domains.

Considering the high level of corruption cases in Nigeria, there is no gainsaying that many taxpayers would attempt to report falsely on their self-assessments in order to conceal some of the amounts payable as tax to the government (Ojonta, 2011). With regard to the forgoing background, therefore, it would appear no

misplacement emphasizing the need for an efficient tax system that would engage every person and organization in the land to act responsibly by paying the correct taxes and on time. Adeniji (2012) corroborates the argument that financial statements prepared by the management of an entity may misrepresent the actual financial position of a firm. Any tax returns filed based on misrepresented data would in correspondence result in wrong assessment (Gwangdi and Garba, 2015; Ladi and Henry, 2015; Vanguard, 2014). Tax audit and investigation, therefore, attempt to fill a relevant gap here of making sure that persons and organizations are appropriately assessed and taxed, and that the government collects the complete and accurate revenue due to it from all the legitimate forms of taxes on the citizens and corporate organizations within the relevant jurisdictions (National Tax Policy Document, page 35).

Tax audit and investigation were introduced in Nigeria since the year 2007. Both the Federal Inland Revenue Service (FIRS) and the States Inland Revenue Service (SIRS) have long since embraced tax audit and investigation as invaluable in the process of tax administration. These notes suggest a background of secondary criticality as the tax audit exercise would only come in where the self-assessment filed by the taxpayer

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would have failed to convince the tax authority. It is appropriate to note also that tax investigation would only follow as a tertiary engagement where the assessment, after the audit, still leaves further disagreement between the relevant tax authority and the taxpayer. In the instance of the latter, imports of criminality would have come into contemplation as the investigation would only stand for very serious breaches on the part of the taxpayers. The outcome of tax investigation could lead to the imprisonment of the defaulters in many cases.

The engagement approach of this paper will be expository with focus on the identification of the beneficial place of tax audit and investigation in achieving a more efficient tax administration. For the purpose of this study, efficient tax administration is considered as the situation whereby the tax authority is able to collect the taxes due to the state from both individuals and companies without undue noise and as accurately as possible. The study will rely on the Doubt and Sociological Theories (to be explained later: see sections 2.2.3 and 2.2.4). Both theories would permit for complete understanding of the environment of the topic with regard to the behaviors of both the taxpayers and the tax authorities). It would seem that, in the end, the equity principle which states that whoever seeks justice must come with clean hands will impact on the analysis, discussions, and conclusions of the paper. The mention of the equity principle would suggest that in resolving any conflicts between the tax office and the taxpayer or in conducting the audit and investigation, both sides will have to engage with transparency – the tax payer would have to provide all the details and explanations the investigators require while the investigators should giving the taxpayer a fair hearing, even to allow for reasonable counter claims by the one under investigation.

There have been indications from different places within the country where the tax audits and investigation processes were carried out under questionable circumstances which had resulted into controversies and loud contentions (Vanguard, 2014; Adeniran, Alade, and Oshode, 2013). This position reaffirms the importance of a proper procedure when the tax authorities should decide to subject a taxpayer to tax audit and investigation. Only clean hands would ensure that the conduct of the audit and investigations produce the expected efficient processes and accurate revenues for the government.

### **Objective of the of the study**

The general objective of this study is to establish the role of tax audit and tax investigation as tools for the efficient management of taxation in Nigeria. The specific objectives are:

- a. To present the meaning of tax audit and investigation
- b. To ascertain the relevance of tax audit and investigation as tools for best practices in tax

administration

- c. To determine how tax audit and investigation reinforce the proper administration of taxation on organizations and persons in Nigeria
- d. To assess how tax audit and tax investigation are mandated by the Nigerian social cultural environment
- e. To determine any required future reforms necessary to improve the practice of tax audit and tax investigation in Nigeria.

### **Statement of the problem**

There is a general feeling that corruption, lack of transparency by tax administrators and tax payers have gravely impacted on the ability of the relevant tax authorities to generate appropriate level of revenue from taxes. Some researchers have also drawn attention to the spate of non-compliance with tax laws involving both the tax administrators and the tax payers as well. The position is that there is a perceived level of inefficiency that has made the collection of the correct tax due to the government a herculean task. On the strength of these considerations the question is raised as to how best the tax revenue can be efficiently and sufficiently collected. Different literatures insist that many are defaulting in their tax responsibility and that the methods of enforcement were far from adequate. It is on the hills of these that tax audit and investigation were introduced. This study will attempt to resolve the arguments and suggest how the problem could be resolved.

### **Scope of the study**

The paper covers the meanings of tax audit and investigation and their relevance to the efficient tax management in Nigeria. It will also discuss the implications of tax audit and investigation to the realization of the primary goal of the tax management. The focus shall be on Nigeria although a few references may be made to other African countries. The study will not involve a survey due to the limited time available.

### **A-priori Expectation**

There is a general expectation that tax audit and investigation play a very important role in ensuring that appropriate tax revenue is collected from the organizations and individuals; and that the entities are compelled to perform in order to avoid the embarrassment of litigation and negative enforcements.

### **METHODOLOGY**

This study employs the content analysis methodology. By this approach, the study will be based on review of relevant books, journals and peer reviewed articles on the relevant aspects of the study.

The materials were sourced from the candidate's private library, online open sources and Babcock University library. There were also some important unpublished true life accounts based on the candidate's personal experience as a chartered accountant in industry and as a tax adviser. The process involved painstakingly reading through a huge pile of downloaded literature and extracting relevant aspects that fit into the study for analysis and documentation. The exercise has provided the candidate a very ample opportunity to understand the thoughts of other researchers and practitioners on the topic, and to reach useful conclusions on how tax audit and investigation could lead to efficient tax administration in Nigeria.

## LITERATURE REVIEW

The literature review covers the conceptual, theoretical, legal and empirical frameworks. These are set out in sections 2.1, 2.2, 2.3 and 2.4 below. The gap in literature forms sub-section 2.5.

### Conceptual Framework

This section will present a review of three basic concepts which provide expository light on the present study. These are the concepts of materiality, revenue collection, and non-compliance. The next few paragraphs provide more details.

#### Materiality concept

The materiality concept is a major driver of the auditor's opinions. The concept holds that the auditor's time of engagement would more beneficially centre on the aspects of assignment the outcome of which would impact the quality of the report. Soyemi (2014:56) opines that, "Materiality may be influenced by considerations relating to classes of transactions, account balances, disclosures and their relationships." An item is considered material if it would affect the decision of a third party or affect the whole interpretation of the true and fair view of the financial position of an entity. That rationalization would affect the allocation of time and resources during the planning of the audit. These considerations come through same way with the tax audit and investigation as of the statutory audit. Materiality can be established based on the auditor's best of judgment (Aderibigbe, 1997). However, accountants have devised other means of assessing materiality by comparing the items with the values in relation to the size of the balance sheet and overall impact in the circumstance. The tax auditor will need reliance on the materiality concept in order to save on the cost of carrying out the engagement.

### Revenue generation concept

Taxation is acclaimed as one of the major ways by which the government raises funds to discharge her obligation of provision of infrastructure and security to the citizens (The National Tax Policy Document, paragraph 7.5, page 61; Sanni, 2012). Several researchers (Elmirzaev and Kurbankulova, 2016; Ladi and Henry, 2015; Ojonta, 2011) agree that the major role of the Federal Inland Revenue Service (FIRS) and the States Inland Revenue Services (SIRSs) is the collection of all forms of taxes due to the government. It is this same role that confers the huge burden of tax audit and investigation on the relevant tax authorities. As is evidenced in some empirical studies, tax payers would seek ways to avoid or totally evade tax liabilities and the relevant tax authorities have a duty to search them out and collect the necessary revenues for the government. In their study of Tax Structure and Economic Growth in Nigeria, Adaramola and Ayeni-Agbaje (2015) submit that a linear relationship exists between economic growth and tax revenue. In discussing tax audit and investigation, therefore, attention is paid to the revenue collection concept to substantiate the investment of time and money in such engagements.

### Non-compliance concept

The subject of non-compliance is considered very relevant to the study on tax audit and investigation. This establishes the notion that tax payers would rather not comply with their duty to pay an appropriate tax and on time to the relevant tax authorities. Employers are also viewed as more prone to non-compliance in the matter of remitting funds collected on behalf of the government as agents. The reports of various empirical studies attest to the prevalence of high level of non compliance in Nigeria and elsewhere (Elmirzaev and Kurbankulova, 2016; Ladi and Henry, 2015; Ojonta, 2011). Every tax auditor gets into the engagement, therefore, with a doubtful mind about the willingness of the taxpayer to obey the laws... This notion defines the relevance of the non-compliance concept to the present study.

### Theoretical Framework

This section presents four theories capable of explaining the tax compliance framework. Three of the theories are suggested by Ladi and Henry (2015) namely: Economic Theories, Psychological Theories and Sociological Theories. The fourth theory is the Doubt theory which comes across from other researchers. More space is devoted below to the explanation of these theories in the light of tax audit and investigation.

#### Economic Theories

Ladi and Henry (2015) subscribe to the economic

rationalization theory that says that individuals would evaluate the cost benefit of any chosen activity. The notion here is that the taxpayer is continuously looking at the benefits from government out of the taxes paid. In other words, the theory is that the tax payer will be prepared to pay more tax as long as he has reason to believe the government is keeping to her own part of the contract in the provision of infrastructure and security. The opposite side of the thinking here is that non-compliance would go high where the perception of the tax payer is that the state is failing in her role of provision of public goods. This is where this theory becomes of relevance to this study given that there are claims of failed state in Nigeria where the tax payers appear dissatisfied and believe the government is short changing them.

### Psychological Theories

The authors refer to the psychological theories as able to explain more complex human behaviours in terms of variables that relate to each individual. Their notion is that the economic theories appear too simplistic to fully explain the human behaviours often enshrouded in individualistic circumstances that may not be capable of explanation on a cost-benefit response model as of the economic theories. Some authors have argued that understanding why the rate of non-compliance is high would go beyond economic and theories to determine what move the tax payers to obey or disobey the law.

### Sociological Theories

According to Ladi, et al. (2015:74), "Sociologists tend to see the cause of variation in human behavior in the structure of the social system." This suggests that people's actions can be understood by examining the forces that surround their environment. This theory brings some researchers to the conclusion that the often lamented corruption infested state of the social life in Nigeria would have a contaminating influence on the citizenry and constitute a direct consequence leading to tax non-compliance. In other words, people would see what goes on around them over a long time as a culture and would so easily be drawn into behaving like everyone else. This conclusion would stand tax audit and investigation in a positive light for the resolution of the likely negative consequential environmental influence of non-compliance by the taxpayers.

### Doubt theory

It is generally an accepted position that the role of the statutory auditor is not to detect fraud (Soyemi, 2014). However, it is equally true that where the suspicion of the

auditor is aroused, he has a duty to probe to the logical conclusion (Aderibigbe, 1997). The clear picture therefore, is that the auditor approaches his assignment with an inquisitive mind. This sense of doubt will lead him to be very meticulous with details when reviewing the books and records of the entity. The tax auditor would be in a more inquisitive frame of mind given that his work is directly tied to ensuring that accurate tax liabilities are remitted to the relevant tax authority.

From these reviews, it would appear that the doubt theory is the most appropriate guiding theoretical framework for this study on tax audit and investigation. The tax auditor is expected to require this sort of inquisitive mind in carrying out his assignment in the Nigerian environment where the level of non-compliance is arguably very high.

### Legal Statutory Framework

Vanguard (2014) reports that there was no specific provision in the Companies Income Tax Act (CITA) for tax audit before the introduction of the self-assessment scheme. This suggests that there has not been a specific legislation addressing the issue of tax audit and investigation directly. However, Ladi, et al. (2015:68) report that: "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 company." The authors traced the statutory mandate for these engagements to 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 (Ladi, et al., 2015; Ifeanyi, 2014). There is also an implied authority by paragraph 7.3, page 56 of the enabling instrument of the National Tax Policy 2010 To carry out their duties, the relevant tax authorities have a bent to tax audit and investigation in their attempt to find a matching response to the sociological disposition of the Nigerian stakeholders who may be non-compliant.

### Empirical Review

This section deals with review of empirical literature as available in published works of other researchers and authorities. Sub-sections included here will focus on audit, tax audit, tax investigation, tax administration, tax evasion and avoidance, socio-cultural/tax compliance issues in Nigeria and gap in literature.

### Audit

Aderibigbe (1997) states that the main reason for audit is to perform the attest function. To attest is to provide

assurance to the true and fair view of the financial statement. This is a means of giving credibility to an entity's financial information. Adeniji (2012) amplifies the objectives of auditing as to prevent fraud and errors, detect any form of irregularity, evaluate the effectiveness of the firm's internal control system, assist the management in the establishment of effective auditing system, advise on financial matters for efficient decision making by the management, and ascertain and ensure that an enterprise conform with statutory and professional requirement.

In the view of Soyemi (2014), auditing ties into primary and secondary objectives. Besides the expression of opinion on the true and fair view of the financial statements of an entity, the auditor may help to frustrate fraud and error, evaluate the internal control system, and make judgment as to the going concern status of the organization. Perhaps even more elaborate is the definition of the American Accounting Association as cited by Adeniji (2012:5) that: "Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between the assertions and established criteria and communicating the results to interested users." These definitions sum up the understanding by which the auditing of a tax payer's financial information would be primarily reviewed to ensure that the tax liability would be based on accurate and not misstated data. Several authors agree that the process of auditing involves mainly of objectively obtaining and evaluating evidences to enable the expression of an opinion (Soyemi, 2014; Adeniji, 2012; Aderibigbe, 1997). Audits may be 'statutory' or 'private'. The statutory audits are required by the Companies and Allied Matters Act, 1990. Private audits are not mandated by law but because the entity owners desire it (Aderibigbe, 1997). The relevant authors agree that audit is made more expedient by the increasing separation of ownership from management as is the case with most modern organizations (Soyemi, 2014; Adeniji, 2012; Aderibigbe, 1997).

### **Tax Audit**

The 2010 National Tax Policy for Nigeria states that "tax authorities may when deemed necessary carry out specific review of a taxpayers records in order to ascertain the tax status of the taxpayer, whether the records have been previously provided to the tax authorities or not. These processes encompass the audit and investigation functions in the tax administration structure" (Para. 5.6, page 45). Mahfar (1994) and Oyedokun (2015) assert that tax audit is mandated by the huge spate of non-compliance which is common in many countries of the world. It did not matter the type of tax system that a country may employ. Corporate entities,

individuals and even charities are found in default of appropriate tax payments, thereby compelling a need for audit. Such default could be associated with failure to file tax returns, under-reporting of income, over-statement of deductions, or failure to pay the correct tax amount (Oyedokun, 2015; Ojonta, 2011; Mahfar, 1994). Accordingly Okonkwo (2014) defines tax audit as an independent examination of accounts, tax returns, tax payments and other records of a taxpayer to confirm compliance with tax laws, rules and regulations and accuracy and correctness of tax paid and adhering to the relevant generally accepted accounting principles and standards. In support of the above position, Goodrich (2013) states that tax audit is an examination of an organization's or individual's tax returns. He further asserts that the purpose of tax audit is to verify that the financial information is being reported correctly. Accordingly Ojo's (1998), the understanding is that the major purpose of tax audit and investigation is not to manage the tax payer but to ensure that the generation of revenue is enhanced. The Vanguard (2014) agrees that the objectives of tax audit as 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 tax payer and consequently the tax liability.

Several researchers (Adediran, Alade and Oshode, 2013; Soyemi, 2014; Okonkwo, 2014; Ojonta, 2013) point to a number of types of tax audit, namely: desk or office audit, field audit, back-duty audit, registration audit, single issue audit, and others. These types of audits are further discussed in the following paragraphs.

### **Desk or office audit**

The researchers refer to desk or office audit when the whole activity of the audit takes place within the premises of the tax officials. The engagement here is such that the auditor does all the review in the confines of his own office, only requests from the taxpayer as many relevant files and documents as necessary to be able to independently ascertain the accurate tax liability of the tax payer (Adediran, Alade and Oshode, 2013; Soyemi, 2014; Okonkwo, 2014; Ojonta, 2013).

### **Field Audit**

This is the engagement where the tax auditors take the exercise to the premises of the taxpayer. The researchers assert that the field audit makes good on the limitations of the desk audit. They favour the argument that the presence of the auditors in the premises of the taxpayer will improve upon the level of compliance (Ladi and Henry, 2015; Soyemi, 2014; Okonkwo, 2014; Ojonta, 2011; Adediran, Alade and Oshode, 2013). It is the view

of the researchers that the presence of the tax auditors in the premises of the tax payer will permit for paying special attention to items of high tax potentials. The expectation is that the field audit will enable the auditor to be more favorably disposed to have more records and files examined with a view to producing a more accurate tax liability of the tax payer.

### **Back duty audit**

Ladi and Henry (2015), Okonkwo (2014); Ojonta (2011); and Adediran, Alade and Oshode (2013) assert that back duty audit is instituted when there is a failure to disclose or include any income or earning in the return submitted to the tax office, or when there is a doubtful claim of capital allowance in respect of current or previous year. The authors maintain that it could also be the case when there has been a reduction in the profit in the return filed in the tax office, or where the tax charged or assessed is less than what it ought to be. Soyemi (2014:172) reports that back duty investigation “would be carried out when a tax payer is suspected to have evaded tax; hence committed fraud.” Accordingly, Ariwodola (2000) describes it as an exercise by the relevant tax authority to ensure that the amount due to the government is duly collected. This goes to confirm again the relevant tax authority as key player in ensuring that government revenues are completely and accurately collected (Adeniran, et al., 2015; Ladi, et al., 2015; Okonkwo, 2014; Ojonta, 2011).

### **Registration Audit**

This type of audit is one that the tax authority uses to bring the individuals and the companies into the tax net (Okonkwo, 2014; Vanguard, 2014). This audit is achieved by obtaining information on businesses from the Corporate Affairs Commission (CAC), the Nigerian Customs Service, other third parties and routine visits to premises of suspected non-registered taxpayers in order to ensure that the entities are properly taxed. At the end of the exercise the organizations and persons found to be outside tax net are usually registered and given identification number and a file.

### **Single Issue Audits**

Vanguard (2014) describes these as quick response audits that have narrow focus. This focus would usually be on a single tax type or a single period concerning a person or an entity.

### **Other Special Types of Audits**

In addition to the tax audit types summarized in sub-sections 2.4.2.1 – 2.4.2.5, some authors refer to other special audits which are identified with some specific

issues such as, mergers and acquisition, post pioneer period, public offers, projects, advisory or record keeping (Okonkwo, 2014; Vanguard, 2014). Each of these types of audits is engaged for a distinctive objective closely associated with their respective headings.

### **Tax Investigation**

Tax investigation is a more detailed and painstaking examination of the taxpayer's records. It is usually triggered by suspicion of fraud, evasion and related offences (Okonkwo, 2014). According to Bassey (2013), tax investigation is a level of enquiry aimed at determining what level of fraud or willful default or neglect a tax payer perpetrated and to obtain evidence for possible prosecution of the culprit. Tax investigation is a secondary level engagement following an audit. The process is more detailed and may concentrate on a narrow aspect of a taxpayer's returns. The engagement may center on discovering some hidden sources of revenue, pointing to gross non-compliance, or it may be about proof of fraud and underpayment. In the United States, a tax investigation may lead to a referral to the 'criminal investigation' whereby the defaulting taxpayer would be prosecuted (Goodrich, 2013). At the level of tax investigation, the tax payer would take precautions to avoid further escalations. In some countries, prosecution of tax offenders is a serious matter and could actuate some political consequences for the offender. Worlu and Nkoro (2012) reiterate that tax is levied by government on product, income or any activity for the development of the state. Okafor (2012) reminds that it is the responsibility of the Federal Inland Revenue Service to handle the administration and collection of taxes except for customs and exercise duty which is carried out by Customs and Exercise Service. These authors agree that non-compliance is common place. This fact suggests an explanation of the importance of the association of tax audit and investigation with efficient and effective tax administration, and no wonder Abiola and Asiwah (2012) insist that such should be the main factors to be considered when designing a desired tax administration structure.

Various researchers concede that tax audit and investigation is confronted by several constraints. Okonkwo (2014) has identified some of the challenges facing tax audit exercise to include poor/lack of record keeping by taxpayers; lack of co-operation by taxpayers and agents; partial submission of books and records for inspection; and deliberate introduction of delays. Other challenges noted by the same researcher are aggression; reconciliation meetings not taken seriously; lack of audit skills by some tax auditors leading to prolonged reconciliation meetings; influence peddling; and inducement of tax auditors. As a way of solution, Afuberoh and Okoye (2014) suggest that Well Equipped

Data Base (WEDB) on all tax payers should be established by the Federal, State and Local Governments with the aim of identifying all possible sources of income of tax payers for tax purpose.

### **Tax Administration**

Some researchers agree that for an efficient tax system there has to be a strong tax governance structure behind it. A study in Enugu State by Ojonta (2011) revealed that the absence of functional tax audit and investigation units was largely the bane of non-compliance and tax evasion. Adeniran et al. (2013) affirm that employers have a responsibility to ensure back duties are remitted to the tax authority. The proposition is that of co-operation between the taxpayers, the employers, and the relevant tax authorities (Adediran, et al., (2013; Ojonta, 2011).

The conclusion of Ladi and Henry (2015) which revealed that tax audit has significant effect on revenue generation in Federal Inland Revenue Service adds momentum to the notion that a healthier tax administration would change the picture of tax revenue from year to year. This makes their suggestion that tax authorities and auditors and the Federal Inland Revenue Service should embrace use of modern audit tools such as computer assisted audit tools (CAATs) more than appropriate (Ladi, et al., 2015; Ibrahim, Yusuf and Bello, 2014; Adediran et al., 2013; Ojonta, 2011). In consonance with the above views, Ibrahim, Yusuf and Bello (2014) suggest that practicing accountants should uphold the fundamental principles of professional ethics while rendering consultancy services as they often come between the taxpayers and the tax authorities.

The deduction from the empirical studies is that the strength of the tax administration will determine the quality of the audit and investigation to be carried out. Accordingly also, there seems to be a consensus of the view that with efficient tax audit and investigation system, the tax authority will be able to collect more revenues for the government (Ladi and Henry, 2015; Adediran, et al., 2011; Ojonta, 2013) and by that way earn a higher rating on the scale of efficiency as an institution. This would stand for the tax administration as a performance indicator. However, for a sustainable system of efficient tax administration the opinion of Enahoro and Olabisi (2012) that tax officials are not fully equipped to carry out their operations as they possess low level of education in the area of tax laws and regulations would need to be taken seriously. Also their view that dishonest practices such as bribery by tax officials should not be brushed aside if the goal of achievement of efficient tax administration in Nigeria would be realized.

### **Tax Evasion and Avoidance**

The National Tax Policy Document, 2010 (page

47) defines Tax Evasion as “a deliberate refusal to pay taxes or make tax returns with the intention of fraudulently retaining tax revenue or concealing the actual tax status of a tax payer”. The policy equally defines Tax Avoidance as: “The means by which tax liability is minimized or avoided by exploiting the loopholes in the law”. The Policy clearly states that while evasion is illegal and a criminal offence, tax avoidance is not illegal; although, it is highly discouraged.

Researchers and experts view tax evasion as the fraudulent, dishonest, intentional distortion or concealment of facts and figures with the purpose of avoiding the payment of, or reducing the tax amount. Gwangdi and Garba (2015) lend a strong voice to expose the aggravated low state of tax compliance. These researchers cited the Federal Inland Revenue Service as saying that 30% of the companies in Nigeria are involved in tax evasion and also that 25% of the registered companies in the country are not paying tax. This appears worrisome. But some researchers see no surprise at this given the overall ugly and near endemic corruption index of the country (Akanbi, 2012; Okwu et al., 2011). Aluko (2006) as cited in Okwu, et al. (2011), makes the point clearer where he opines that economic and commercial corruption covers acts that are largely perpetrated by businessmen and contractors who have motivation from the financial gains for themselves and their collaborators in politics and government. Agreeing with the corruption theory, Gwangdi, et al. (2015:24) reason that, “If due to high levels of corruption, the citizens cannot be certain whether the taxes they paid were used to finance public goods and services their willingness to pay suffers, and it becomes more likely that they would evade their tax liabilities. A tax payer might consider evading taxes if the cost of bribing a tax auditor is lower than the potential benefit from tax evasion”.

In summary, Gwangdi, et al., (2015) highlight the reasons for low tax compliance in Nigeria to include, low transparency and accountability of public institutions, and high level of corruption. From the sociological point of view, it may safely be argued that a country with such low rating would have more tax payers who are non-compliant with tax payments. This position strengthens the calls from many quarters for a more efficient tax system anchored on professionally delivered tax audit and investigation protocols.

### **Socio-cultural/tax compliance issues in Nigeria**

The notion of Nigeria as a country with so many corruption cases is easily the view point of many researchers (Fagbemi, 2010; Ladi, et al., 2013; Nwazue, 2002; Adegbe and Adeniji, 2009). It goes without gainsaying that a twin malady of corruption is non-compliance with the general laws of the land. The conclusion of Dike (2010) that one of the challenges with the Nigerian economic development is the problem of

corruption brings the picture out more clearly. Hence, Sanni (2012) asserts that the tax culture is very low in Nigeria. The author estimates that tax payers would invent a fair or foul means to avoid or reduce their tax liability. In his further assessment, non compliance cases could arise from both the tax payer and the tax authority. Okwu, Oluwalaiye, Obiakor and Taiwo (2011) citing Aluko (2006) corroborate that contractor, business men, consultants, politicians and military leaders conspire to evade taxes. In this sense there would be no room for absolute compliance as one person or the other would be in default one way or the other. The conclusion of Gwangdi and Garba (2015) adds weight to the report of low compliance rating taxpayers, affirming that tax avoidance and evasion are major factors that confront the nation's income growth and call for very strict enforcement of the tax laws. On poor tax administration Benedicta (2009) and Adegbe (2011) assert that tax officials are not fully equipped for the assignment. The notion is that most of the tax administrators possess a low level of education and some even are not conversant with the tax laws and regulations. The researchers believe, therefore, that there have been dishonest practices such as bribery hampering efficient and effective taxation. These thoughts will affect the conclusion of the present study.

A measure of the weakness of the system of tax administration in Nigeria is captured by Sanni (2012) who argues that there were less qualified staff that are computer knowledge savvy. Benedicta (2009) affirms the above views and identifies problems with tax administration in Nigeria to include among others limitations of manpower, money, tools and machinery. In their examination of the contribution of tax audit and investigation to the sustainable development of Nigerian economy, Ibrahim, et al. (2014) concluded that the practicing accountants should uphold the fundamental principles of professional ethics while rendering consultancy services. This line of recommendation would not be unconnected with the frequent reports of tax authorities foreclosing some business premises in parts of the country over disputed tax audit reports. Vanguard (2014) corroborates that the tax authorities discharge their duties as contained in the enabling tax laws by adopting various methods in tackling the taxpayers. However, the author places a caution that the tax authorities should exercise restraint in the exercise of their statutory powers and avoid acting as if they were without legal limits.

### **Process of tax audit and investigation**

A few authors have documented the tax audit and investigation processes in equivalent procedure as for a statutory audit. Ojonta (2011:46) suggests the following as stages of the tax audit process:

- a. Selection of the tax payer to be audited
- b. Preliminary review of taxpayer's file
- c. Notification of Taxpayer
- d. Pre-audit meeting followed immediately by field audit
- e. Post audit meeting
- f. Interim audit report
- g. Post audit review by regional/headquarters audit
- h. Reconciliation meetings
- i. Final audit report.

As stated earlier, where the audit leads to suspicion of criminal involvement or fraud, tax audit process may be initiated by the relevant tax authority.

As regards tax investigation, Citing Chekelu (2000), Ojonta (2011:50-51) has listed five stages of actual investigation of tax cases which involve:

- i. Surveillance or pre-investigation activities – which include checking and cross checking and obtaining more information on the alleged tax fraud”;
- ii Evidence audit or investigation – when investigators move into the business premises of the suspected party to conduct in-depth tax audit”;
- iii. Case preparation – which involves the collection of witnesses, interrogation of suspect, and careful examination and analysis of seized documents to assess their relevance to the case and potency in the law courts”
- liv. where the case goes to court for criminal prosecution”;
- v. Termination of investigation” – where there is “insufficient evidence, or no criminality is involved; or where the process is terminated by law such as if a case becomes statute-barred, or if the suspect dies or becomes medically or legally insane.”

The order suggests that the process could end at the case preparation stage if the evidence against the tax payer is weak (Ojonta, 2011) or go all the way to imprisonment if fraud is established.

### **Gap in Literature**

The available literature seems to have devoted more space to the role of tax audit and investigation as tools for the collection of more tax revenue and the problems confronting tax authorities. It will appear from the reviewed empirical studies that reference to use of tax audit and investigation as a means of achieving an efficient system of tax administration has received very less focus. It is on this ground that this study attempts to provide analysis of how tax audit and investigation should be seen as very imperative to the efficient tax administration in Nigeria. The next section will discuss the role of tax audit and investigation as tools of efficient tax administration.



## DISCUSSION

In this section the relationship between tax audit and investigation and how both would ensure an efficient administration of the tax system has been discussed.

### The Link between Tax Audit and Investigation

As revenue generation is the key function of the tax administration, the role of tax audit and investigation in helping to achieve this major goal provides the basis for assessing the relevance of the tax authorities. It could well be said that they should cease to exist if they are not able to deliver on their very primary role as an agency of the government.

As the literature reviews made clear, tax audit provides room for the tax authority to look closely into the self-assessments submitted by the taxpayer. Experience is that taxpayers will introduce all kinds of creativity into the statements to help them minimize the tax liability due from them. The tax audit comes in like the proverbial 'Dr Do Good' to ensure that there are no 'mischief' hidden anywhere. As stated before, most of the times there are the holes. The tax audit reveals it. The taxpayer is then given the correct tax bill to pay. If he accepts and pays, the story is closed. Should he dispute, then further negotiations may go on until agreement is reached.

The tax authority will pull up the tax investigation agenda if there were serious discoveries during the tax audit process pointing to the taxpayer having intentionally hidden some incomes. As the literatures reviewed pointed out, this is a very serious state of the undertaking because the outcome could lead to the imprisonment of the defaulting taxpayer.

From the reviews, it could be said that the tax investigation comes in after the tax audit has failed to produce the expected accurate tax liability payment. The tax investigation level is a bit more unfriendly than the tax audit. However, how good or bad the process finally turns would depend on the co-operation of the taxpayer. But in terms of relevance, tax audit and investigation provide the enabling power of action for the tax authority to discharge her role efficiently and effectively. Handled professionally, the tax administration would be in a position to generate incredible results.

### The role of Tax Audit and Investigation as imperatives for efficient Tax Administration

Going through all the literatures cited in this work, the role of tax audit and investigation as imperatives for achieving an efficient and effective tax administration system comes to light. This position rests on two persuasions that nearly every researcher and author consulted alluded to. One, the purpose of tax administration is to generate revenue for the government to enable the

authorities deliver on the public goods and fill up the expectation gap of the tax payers. All the authors are in agreement that a test of an efficient tax administration includes her ability to carry out on its statutory role as a collector of revenues due to the government. Two, the level of non-compliance on the part of the taxpayers, high as reported, would affect the level of success of the tax administration. From the literatures it is gathered that more than 30% of the companies in Nigeria evade tax and 25% of registered companies do not pay tax at all (Gwangdi and Garba, 2015) Many more are not at all registered yet for the purpose. Some of the researchers supported the high statistic of non-compliance as a direct association with the sad reality of the near endemic corruption in the country. The conclusion of many of the researchers was easily that in a country with such bad corruption index profile as Nigeria, the rate of tax non-compliance would be expectedly high.

It is on the framework of the above observations that the present study proposes that for the relevant tax authorities to deliver effectively on their role as collectors of government funds from the taxpayers, tax audit and investigation should be elevated to an all high level of imperative. Since it is apparent that the average tax payer in Nigeria would do everything to avoid or pay less tax, there should be no faith lost for the relevant tax authorities to embrace tax audit and investigation as vehicles of necessity for carrying out their legitimate assignments. USA and Canadian Inland Revenue Services (IRS) have employed these tools to a huge advantage in collecting the money belonging to the government. FIRS and the SIRS should borrow a leaf from the American and Canadian examples.

As stated by a few researchers, tax audit and investigation would yield beneficially on two fronts. Firstly, it will be the basis for thorough and accurate computation of the tax liability to the relevant tax authorities. Secondly, it would sensitize the taxpayers to see the need for the payment of the taxes due as of urgency and boost the compliance index. For social and political reasons, people would rather pay whatever taxes assessed than go to jail because of the stigma attached to being tagged an 'ex-convict' in Nigeria. By default, the fear of the tax audit and investigation would constitute a compelling force on the part of the taxpayer to desist from any contemplation of non-compliance. The bottom line of all these would be an improvement on the country's tax administration system.

### Challenges: Socio-cultural issues and others

The challenges raised in the literature (Okonkwo, 2014; Afuberoh and Okoye, 2014) review included poor record keeping, lack of co-operation from the taxpayers and tax agents, distortion of records and partial submission of books and records, and deliberate introduction of delays. Other challenges were aggression; reconciliation

meetings not taken seriously; lack of audit skills by some tax auditors leading to prolonged reconciliation meetings; influence peddling; and inducement of tax auditors. Looking at these problems, it is possible to assess these as human problems which re-organization and re-strategizing on the part of the tax authority may put to rest. However, attention must be given to the sociological import of the aggravated state of corruption in the country. The Federal Government would have to use her elevated authority to protect and support the effort of the tax authorities by providing the appropriate legislation to match tax offences with commensurate legal punishments. The use of tax reform (Adegbe, 2011) would be of appropriate place to address the two monsters of tax evasion and tax avoidance, and achieve a sound level of positive compliance.

## CONCLUSION

All the literatures reviewed throughout the study showed a convergence of consensus that tax audit and investigation exert important influence on taxpayers to pay the correct tax liabilities to the government. The reviews confirmed that there is a high state of tax non-compliance in Nigeria (Gwandgi, et al., 2015). The study revealed that taxpayers, for different arguments of failure of government in infrastructural deliveries, are unwilling to pay the correct tax liability. This view point supported the position of the paper that the tax administration would do better by bringing on tax audit and investigation to compel obedience on the part of the taxpayers. Okonkwo, 2014; Afuberoh, et al., 2014). That way, tax audit and investigation would serve as very imperatives for efficient and effective collection of tax revenues for the government.

## RECOMMENDATIONS

This section presents suggestions on how to improve the on the tax administration in Nigeria by the enforcement of the tax audit and investigation on the taxpayers.

The study showed that there was not a definite legal instrument that has specifically empowered the relevant tax authorities apart from the allusions in FIRS Act and the National Tax Policy Document. In each of these cases, no strong sanctions were mentioned for those who are guilty of non-compliance. The result is that offenders are not under any serious pressure to comply. It is the recommendation of this paper therefore, that the Government should review the enabling FIRS Act with a view to firming up the punishment for non-compliance with tax laws. This is an important way to bring taxpayers to see tax audit and investigation as tools of due process imperative in the hands of the relevant tax authorities.

The processes of tax audit and investigation should be

well clarified as necessary education for the taxpayers. This would help taxpayers selected for audit to make adequate preparations to ensure that results of the audits do not go on being disputed for many months after the exercise was carried out.

There is need to have a unit of the tax authority designated for tax audit and investigation backed with. This goes with it an equally urgent call for the intentional recruitment of qualified professionals or engagement of only professional accountants well briefed for the tax audit and investigation engagement. At the centre of these calls is also the need to have the Inland Revenue Services stand on firm grounds to deliver on their role as revenue collectors for the government. As the empirical evidences reviewed showed tax audit and investigation as positively related with tax revenue generation, this informs why tax audit and investigation should be given a prime place in the scheme of operations of the relevant tax authorities.

Finally, it would be appropriate to advise that the Government should improve on her provision of public goods (good roads, education, electricity, water, security, sanitation, etc.) in order that the taxpayers would have no reasons to be tempted to rationalize about the usefulness of tax payments to the government and consequently default. It is the position of this paper, in agreement with Gwangdi and Garba (2015) and others, therefore, that improvement in the provision of basic infrastructure by the government would compel voluntary compliance by taxpayers.

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