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IMPACT OF AUDIT QUALITY ON TAX COMPLIANCE IN NIGERIA

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Abstract

The study examined the impact of audit quality on tax compliance proxy as tax revenue in Nigeria. Specifically, the study investigated the relationship that exists between auditor independence, engagement performance and tax revenue knowing that, many times, tax assessment is based on audited financial statement presented by the firms. Survey research design was adopted using primary data sourced from administering structured questionnaire on the respondents selected from amongst the staff of Federal Inland Revenue Service (FIRS), academia (Accountants) and practicing accountants/auditors within Ondo State. The

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Issue 2/2021

ordinary least square (OLS) model was used to analyse data so collected. The R^2 adjusted predictive power of the study was 0.623 (62.3%) and the F-statistic at the 0.01 and 0.05 level of significance which are 4.79 and 3.07 and is less than 6.047 which was a clear indication that auditor independence and engagement performance have a significant effect on audit quality with resultant effect on tax compliance (tax revenue) in Nigeria. The study therefore recommends that auditors should embrace independence and strictly adhere to established standards and procedures laid down by the government, professional bodies when reporting to enhance audit quality at all times; it is believed this will foster tax revenue generation to argument dwindling revenues.

Keywords: *Audit Quality; Auditors' Independence; Tax Revenue; Audit Engagement.*

JEL Classification: H26

Introduction

Government at all times levy taxes to generate revenue to provide basic amenities that would improve the life and standard of living of citizenry. Ordinarily, a tax is a compulsory levy by government on its subject's income, consumption. Levies could be made on salaries, business profit, interest, dividend, discount or royalties purposely to generate revenue. Besides, tax is levied on the company profit, petroleum profit, capital gains and capital transfer [Bello, 2001]. In a similar view, taxes are compulsory transfers or payments of resources from private to public sector. It's levied principally on the basis of a determined criterion and with no expectation of specific benefits to be received but to attain some national economic and social objectives. Tactically, the essence of taxation is primarily to generate revenue for government in order to meet ever growing government expenditure [Bradford, 2013]. It is worthy of note that in order to be obliged to pay tax, individual or organization must fall within the above income groups, this therefore led to the process of filing returns and assessment at the end of tax year. As such, each taxpayer's income is subject to assessment in the assessment year; they are expected to submit their income tax returns and other relevant information to the tax authority to determine the tax. [Oyebanji, 2016].

No taxpayer smiles when paying taxes. As such, he or she needs to be motivated, to be encouraged; therefore, he needs to be motivated seductively or by force into paying what is expected from him. The taxpayer is always unwilling to pay his tax liability. The use of tax audit has however helped in the generation of revenue to the government. 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. One of such audit tools is the risk engine tool for identify 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 [Iheanyi, 2014]. According to Onoja and Iwarere (2015), in an effort by the FIRS to increase government revenue through taxation, reforms have been put in place by creating 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.

Yet another department was established. This was the Audit Department, because the new leadership realized that tax audit and investigation were core operational priorities of a modern system of administration. The existing units and processes in the pre-reform era lacked the requisite funding, training, independence and spread to function optimally. The Investigation and Intelligence Division was created at the same time. It was later merged with the Audit Department in February 2006 to take over the operations of the Special Investigation Branch and the Intelligence Branch. The mandate of the new unit includes (i) investigation of civil and criminal cases and violations of tax laws; (ii) installation of an effective database and efficient intelligence network; (iii) prosecution of violators of the tax laws to serve as deterrence; and (iv) fostering closer working relationships with other government agencies. Other divisions established included the Values and Doctrines Division – which was built on the whistleblower unit. This unit had earlier been established in August 2005 in the Office of the Executive Chairman of FIRS to serve as a window through which stakeholders and the public at large

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could reach the Chairman with reports of corrupt practices involving the FIRS and its staff [FIRS, 2012].

According to Amah and Nwaiwu (2018), no taxpayer is ready to open his/her books for examination by tax officers. Not minding the concept of *quid pro quo* (something for something), it is still the duty of taxpayers to declare their tax affairs in line with the available tax laws. Audit is said to be "an evaluation of a person, organization, system, process, enterprise, project or product. Audits are performed to ascertain the validity and reliability of information; also to provide an assessment of a system's internal control". The goal of an audit is to express an opinion of the person/organization/system etc. in question, under evaluation based on work done on a test basis [Zysman, 2004]. Audit is "a systematic approach that follows a structured, documented plan called audit plan". In this, the auditors who use a variety of generally accepted techniques examine accounting records. Financial audits are thorough review of a company's financial records conducted by external auditors to verify that their financial statements are accurate and reliable. Audits are also customarily conducted to assess the effectiveness of internal controls or compliance with regulations [Bradford, 2013].

Statement of the Problem

Lack of adequate tax revenue has been the major problem facing most government authorities globally. The Nigeria tax system has failed on the area of tax compliance in Nigeria today and they do not measure to the appropriate standard. The self-employed persons earn more than those in paid employment do. The self-employed persons earn four times more than those in paid employment do, but the bulk of personal income yield comes from those in paid employment, whereas those who are self-employed earn most of the money and despite all these they do not comply with payment of tax. As a result of inadequacy in monitoring taxes paid, lots of those who are self-employed evade tax. These thus call for the need for a good and standard tax audit and investigation.

Secondly, due to moral decadence and general fall in respect for hard work, the society, general public, parents, friends and family care less how anyone makes money or acquired wealth. Because of abuse of power and privileged position, an average Nigerian has no faith in the government and will not want to entrust their resources to the government, as such payment of taxes will be ranked among the least obligation they owe to the government at all levels. Over the years, revenue derived from taxes has been very low and no physical development actually took place, hence the impact on the poor is not being felt. Inadequate tax personnel, fraudulent activities of tax collectors and lack of understanding of the importance to pay tax by taxpayers are some of the problems of this study. The study seeks to focus on audit quality and tax compliance in Nigeria against the frequency-violated assumption in the context of tax compliance. Specifically, the study determines if auditor independence could affect tax compliance in Nigeria and examine the relationship between the engagement performance and tax compliance in Nigeria.

Literature Review

Concept of Audit Quality (AUDQUL)

According to the consultative council of accountancy body (CCAB), an appointed auditor defines audit as an independent examination of and expression of opinion on the financial statement of an enterprise in pursuance of that appointment and in compliance with any relevant statutory obligation. To this end, audit is expected to improve the value of information presented in the financial statements and, as a result of this, audit quality has to do with a display of professionalism, diligence and care by auditor in audit process which should lead to a true and fair view of financial statement [Arrunada, 2000]. Although audit quality does not have a universally accepted definition, different scholars in their studies explain the term audit quality. To mention but a few, Arens, Randal, Beasly, Shailer & Fielder (2011) define the quality of the audit as meaning how well an audit detects and reports material misstatements in financial statements, the detection aspects are a reflection of auditor competence, while reporting is a reflection of ethics or auditor integrity, particularly independence. Davidson and Neu (1993) define audit quality as the ability of auditors to discover and reveal light material misstatements and manipulations in net income reported. This is corroborated by findings from Salehi and Azary (2008) who stressed that the capability of an auditor in the protection of the interest of users of financial statement through the detection and reporting of material misstatements and diminution of information asymmetry between the users of financial statement and management explains audit quality. They further opined that the existence of audit quality is validated when a financial statement is free from information asymmetry. According to Onaolapo, Ajinlo and Onifade (2017), in defining audit quality, actual quality and perceived quality have been contended as essential issues. While actual quality is regarded as the likelihood of

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reducing the associated risk of reporting a material misstatement in financial statement, perceived quality has to do with what the users of financial statement believe about the ability of auditor to reduce material misstatement.

Moreover, there are certain fundamental characteristics to watch out for when audit quality is a subject of discussion. This, according to Yuniarti (2011), includes Reliability (which has to do with how dependable are the auditor's findings and to what extent do the findings reflect a true and fair view of audited entity's financial statement), Significance (what value is tied to the audit?), Scope (which has to do with whether the entire aspects of the audit is properly addressed), Objectivity (what level of independence was exhibited in the audit process?), Clarity (was the audit outcome well communicated and recommendations made?), Timeliness (was the duration of the audit work too long, too short or just normal before the audit report was submitted?), Effectiveness (does the audit actually achieved its objective?) and Efficiency (was the cost of the audit outweighed by the associated benefit?). According to him, the integration of these characteristics as a whole gives quality to the audit. This implies that audit quality is prominent where these characteristics can be identified.

Auditor Independence (AI)

According to the consultative council of Accountancy bodies (CCAB), independence is an attitude of mind characterized by integrity and an objective approach to professional work. It is an attribute, which qualifies an auditor to expresses opinion on matters of financial reporting without bias or undue pressure. As a result, independence in assessing quality of financial reports dictates audit quality. Loveday (2017) affirmed that auditor's independence and auditing quality are important factors in auditor selection and thus indicate the confidence level in financial reports, confirms this assertion. In addition, Semiu, Okwu and Eyesan (2012), in asserting the essentiality of independence in financial reporting, suggested that auditor independence is at the centre of the integrity of the audit process. Professional accounting bodies consider independence attribute as a key factor in measuring the performance of their members. For instances, the AICPA to secure quality control in the practice of its members issued a statement on quality control standards which specifies five elements of quality control, amongst which is independence. The main purpose of maintaining independent quality is to ensure that personnel maintain independence (in fact and in appearance) in all required circumstance, perform all professional services with integrity and maintain objectivity in discharging professional responsibilities.

Engagement Performance (EGP)

This dimension of audit quality is anchored on ensuring compliance with the established standard and procedures on every audit engagement. It is amongst the quality control procedures developed by AICPA. According to AICPA, the purpose is to provide assurance that work performed meets applicable professional standards, regulatory requirements and the audit firms' standards of quality. This is secured through extensive review of working papers and discussion of identified anomalies [Loveday, 2017]. Literature in this area is serenity; nonetheless, ensuring properly performance of every audit to the expectation of clients and the consuming public is an important aspect of audit quality and thus, improves financial reporting.

Concept of Tax Compliance

This is defined as the magnitude to which the taxpayers ensure tax obligation through payment of tax promptly according to the appropriate tax laws or regulations. This means taxpayer's prompt response to tax payments by producing and submitting tax information to the relevant tax authority based on stipulated formats. Tax compliance is the willingness and ability on the taxpayer's part to obey the relevant tax laws, declare the actual income and pay the correct tax liability as assessed promptly [Sitardja & Dwimulyani, 2016]. In the modern-day context, tax compliance study is credited to Allingham and Sandmo (1972); they used economics of crime approach, which was developed by Becker (1968) to explain taxpayers' compliance and taxpayers' behaviour. Many researchers had defined tax compliance. Ahmed and Kadir (2015) defined tax compliance with the degree to which taxpayers comply with the tax rules and regulations established in a country. Thiga and Muturi (2015) also defined tax compliance as the ability to fulfil tax obligation payment as required by the relevant tax laws.

Tax Revenue (Tax Rev)

It is often said that the customer is always right, this is however not the case in the relationship between the tax authority and the taxpayer. This is so because the major aim of tax audit and investigation is not to manage the taxpayer but a focus on generating revenue [Ojo, 1996]. Artificial Transaction, Global income, expatriates

Annals of Spiru Haret University.
Economic Series
Since 2000
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Issue 2/2021

and Deemed income. Taxable incomes of expatriates in the oil industry are most often grossly understated. This emanates from the fact that the revenue accruing to oil companies are partly received offshore from which expatriates are also partly paid offshore. The part of an expatriate's income paid offshore is always hidden from the tax authorities. This is an illegal practice given that what is taxable in Nigeria as stipulated by section 3(1) of the PITA is the income "from a source inside or outside Nigeria." In other words, an expatriate is expected to pay tax on his global income here in Nigeria irrespective of how and where the income is received provided the work is performed here in Nigeria.

In order to ensure that government is not short-changed as a result of this, as a rule, the tax auditor has no choice but to invoke the provisions of section 17 (1) of the PITA, which provides that if a tax authority is of the opinion that any transaction that reduces or would reduce the amount of any debt is artificial or fictitious, the tax authority may disregard the provision or order that such adjustments be made to that individual's income in such a way as to offset the reduction in the tax liability affected. This is done by substituting the declared taxable income of the expatriate with reasonable deemed income which in most cases is computed by assigning the naira equivalent of the minimum wage or the average unemployment benefit in the country of origin of the expatriate concerned. This is based on the assumption that no rational expatriate (who might have come from a country more developed than Nigeria) will accept a job that will fetch him less than the minimum wage (or unemployment benefit) in his country. In some cases, where the tax auditor has reasons to believe that income of local staff in a company is understated, the concept of deemed income may also be applied, in the oil industry for example, there are many off-payroll benefits paid to local staff. Such benefits include furniture grants, trees allowances and housing grants that are not meant to be refunded. All these are always not included in the taxable income of the employees, hence the justification for applying the concept of deemed income in the instance. The application of deemed income is a recent development in tax audit which the private sector detest [Adediran *et al.*, 2013].

Theoretical Framework

This study is anchored on two theories – the benefit theory of Taxation and the Ability to pay theory of taxation.

The Benefit Theory of Taxation

The benefit of taxation theory presupposes that the state should levy taxes on individuals according to the benefits conferred on them. The more benefits a person derives from the activities of the state, the more he should pay to the government. The theory emphasizes that citizens should pay taxes proportionally to the benefits received from the state [Elimi *et al.*, 2015]. It assumes that there is an exchange relationship between the taxpayer and the government [Tutik, 2014]. Under the benefit theory, the levels of taxes are determined automatically since taxes are levies guide pro quo between or proportionately to the benefits the citizens receive from the state or the government. What it means is that the more the individuals or taxpayers benefit from government, the more tax they pay to the government, all things being equal. However, this may not be true in reality, thereby necessitating several criticisms levelled against theory thus; firstly, it is not possible to estimate the benefit enjoyed by a particular every year and again, most expenditure incurred by the state is usually for the general benefit of its citizens. Secondly, putting this theory into practice means the poor will have to pay the heaviest taxes, because they benefit more from the services of the state.

The Ability to Pay Theory of Taxation

This is the most common accepted principle, which emphasizes equity or justice in taxation. The theory states that the citizens of a country should pay taxes to the government in accordance with their ability to pay. According to this theory, it is reasonable and just that taxes should be levied based on the taxable capacity of an individual. In other words, taxes should be based on the amount earned by the taxpayers [Enofe, 2013]. For instance, if the taxable capacity of a person A is greater than the person B, the former should be asked to pay more taxes than the later. According to Torgler (2003), the theory of ability to pay does not consider the amount of these services. For example, all taxpayers contribute to public schools even if their kids are there or not.

Empirical Review

Ilaboya and Ohiokha (2014) empirically examined the impact of audit firms' characteristics on audit quality. The study revealed that a negative relationship exists between auditors' independence, audit firm size, audit tenure and audit quality using multivariate regression technique with emphasis on logit and probit method. Yuniarti (2011) examined how the complexity of services provided, expertise, risk of assignment, and other professional considerations determine audit fee charged by auditor. The study further reveals that higher audit fee enhances a higher quality audit. Ghosh and Robert (2008) conducted a study on the positive relationship between audit fees and audit quality and discovered that several things among which are auditing time and the skilled of the staff cause it. They stated that the more the auditing time, the higher the audit fee. Moreover, audit fees will be high if the auditing procedures involve highly skilled and experienced audit staff. This implies that high quality audit is associated with higher audit fees.

Onaolapo, Ajulo and Onifade (2017) examined the effect of audit fees on audit quality: evidence from cement manufacturing companies in Nigeria. Ordinary least square model estimate technique was employed to analyze the relationship between the explanatory variables and the dependent variables. Secondary data derived from the published annual reports of the selected companies for a six (6) years period (2010–2015) was used for the study. The research finding shows that audit fee, audit tenure, client size and leverage ratio exhibit a joint significant relationship with audit quality.

Loveday (2017) investigated audit quality practices and financial reporting in Nigeria; drawing evidence from auditing firms. Data were collected through questionnaire. Univariate, bivariate and multivariate analyses were performed using descriptive statistics, Pearson product movement coefficient of correlation and stepwise multiple regression. The findings indicate a statistically significantly positive strong relationship between the measures of audit quality (auditor independence, technical training and proficiency and engagement performance) and financial reporting (measures in terms of reliability of financial report).

Semiu, Okwu and Eyesan (2020) examined factors affecting audit quality in Nigeria. The primary data were supplied by 430 respondents across several stakeholders in the field of financial reporting and auditing. The secondary data were generated from the financial statements of forty annual reports of companies quoted on the Nigeria stock exchange. The test of hypotheses and other, multiple directorships is the most significant in affecting audit quality in Nigeria.

Lawyer and Efecloo (2017) examined tax compliance barriers and internally generated revenue in Nigeria: empirical from small and medium enterprises in Port Harcourt metropolis. Primary data were collected using structured questionnaire, while formulated hypotheses were analyzed using SPSS software. The result of the

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Since 2000
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study showed that problems such as lack of reliable tax base and the prevalence of cash transactions impede government's internal revenue generation in Nigeria.

Amah and Nwaiwu (2018) conducted a study on tax audit practice and down south tax revenue generation in Nigeria. Both primary and secondary source of data was adopted and the data collected was analyzed using linear regression analysis and multiple regression analysis with the aid of special package for social science (SPSS) version 21.0 with 0.7190, the empirical results indicate that the predictor variable of tax audit practice has positive effect on criteria variable of tax revenue in Nigeria.

Adediran, Alade and Oshode (2013) investigated the impact of tax audit and investigation on revenue generation in Nigeria. Data were collected through the primary sources from 410 respondents who are staff of the Federal Inland Revenue Service and Edo State Board of Internal Revenue. Hypotheses formulated were tested with Pearson Correlation Coefficient using SPSS output data. The findings are that the tax audit and investigation can increase the revenue base of the government and can also stamp out the incidents of tax evasion in the country.

Methodology

Research Design

This study employed a survey research design using judgmental and random sampling techniques to elicit the opinion of selected respondents on the impact of audit quality on tax revenue generation in Ondo State. The population of this study comprises of all auditors, Federal Inland Revenue Services Staff and Academics (Accountants) in Ondo State. The random sampling technique was adopted in selecting the academics, FIRS staff and auditors in Ondo State. A random sample of 100 was targeted for the respondent groups. These were made up as follows:

Group

No. Sample

Auditors	FIRS Staff	Academics (Accountants)	Total
40	30	30	100

The primary data collection was achieved through administration of copies of carefully structured Likert scale questionnaire to auditors, Federal Inland Revenue Service Staff and Academics (accountants). The data was analyzed using Ordinary Least Square Regression (OLS) technique.

Annals of Spiru Haret University.
Economic Series
Since 2000
ISSN:2393-1795 ISSN-L:2068-6900
Issue 2/2021

Model Specification

The model developed in this study by the researcher for the purpose of estimation as stated in the objective that tax compliance being proxied with tax revenue (Dependent Variable) is as follows:

Tax Rev = f(AUDQUR) = Audit Quality
Tax Rev = f(AI, EGP)
$Tax\ Rev = a_0 + a_1 AI + a_2 EGP + u$
Where:
Tax-Rev = Tax Revenue
AI = Auditor Independence
EGP = Engagement Performance
U = Stochastic Error Term
$a_1, a_2, a_3,$ = *Regression Coefficients.*

Table 1. Operationalization of Variable

S/N	Variable	Definitions	Capacity	Measurement & Proxies	Apriori Expectation
1.	Tax-Rev	Tax Revenue	Dependent	Tax generated by the FIRS	NA
2.	AI	Auditor Independence	Independent	Approach to Professional Work	+
3.	EGP	Engagement Performance	Independent	Compliance with established standards and procedures	+

Source: Designed for the Study (2021)

Analysis and Results

The preliminary analysis of the data is first conducted (descriptive and correlation analysis). Thereafter, the ordinary least square (OLS) is conducted. The results are presented below:

Annals of Spiru Haret University.
Economic Series
Since 2000
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Issue 2/2021

Table 2. Preliminary Analysis – Descriptive Statistics

		Gender	Ages	Academic Qualification
N	Valid	100	100	100
	Missing	0	0	0
Mean		1.59	2.02	2.75
Median		2.00	2.00	3.00
Minimum		1	1	1
Maximum		2	3	4

Source: SPSS Version 20.0

The descriptive statistics is the normality test for the distribution of respondents' bio-data, this has shown the dispersion and central tendency in the variables from mean, median, standard deviation, minimum and maximum and sum of it, with the mean of **1.59, 2.02** and **2.75** in all the bio-data.

Table 3. Gender of the Respondents

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid	Female	41	41.0	41.0	41.0
	Male	59	59.0	59.0	100.0
	Total	100	100.0	100.0	

Source: SPSS Version 20.0

The table above showed the gender distribution of the respondents (Auditors, FIRS Staff and Academics (Accountants)) that were sampled for the research. 41 (41%) were female, while 59 (59%) were male at those Parastatal. The graphical structure was presented bellow:

Issue 2/2021

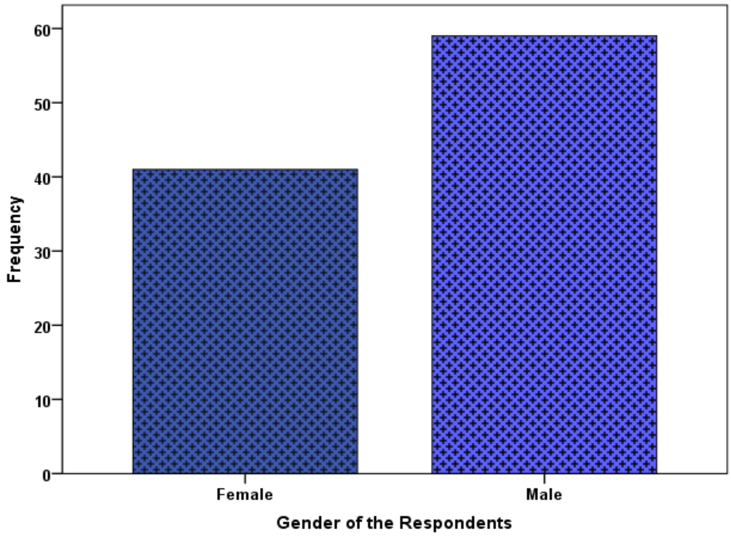

Table 4. Ages of the Respondents

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid	25 – 30	27	27.0	27.0	27.0
	31 – 35	44	44.0	44.0	71.0
	36 and above	29	29.0	29.0	100.0
	Total	100	100.0	100.0	

Source: SPSS Version 20.0

According to the table above, which has shown the age structure of the Accountants and Auditors who respond to the questionnaire assigned, out of **100** respondents, **27** respondents fall below the age of **(25-30 years)** which was **27%, 44 respondents** were within the age of **(31-35)** which was **44%** and **29** respondents were within the age of **(36 and above)** with **29%**, this shown that more experience Accountant and Auditors were employed in the three selected areas. Below is the graphical structure of respondents' age.

Annals of Spiru Haret University.
Economic Series
Since 2000
ISSN:2393-1795 ISSN-L:2068-6900

Issue 2/2021

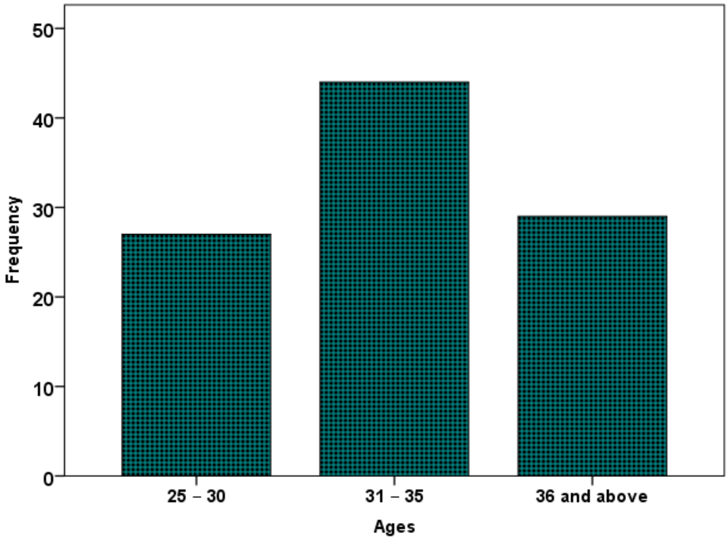

Table 5. Academic Qualification

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid	HND	7	7.0	7.0	7.0
	BSc/BA	22	22.0	22.0	29.0
	MSc/PhD	60	60.0	60.0	89.0
	ICAN/ANAN	11	11.0	11.0	100.0
	Total	100	100.0	100.0	

Source: SPSS Version 20.0

From the table **5** above on the Academic qualification showed that **22%** of the staff are Degree Holders, **7%** are National Diploma Holders, **60%** are Master and Professional Accountants Holders, while **11%** are Doctorate Holders as compare. According to the analysis it has been shown therefore that more Master and Professional Accountants Holders were employed in the institutions responded in the questionnaire. The graphical structure is as shown below:

Annals of Spiru Haret University.
Economic Series
Since 2000
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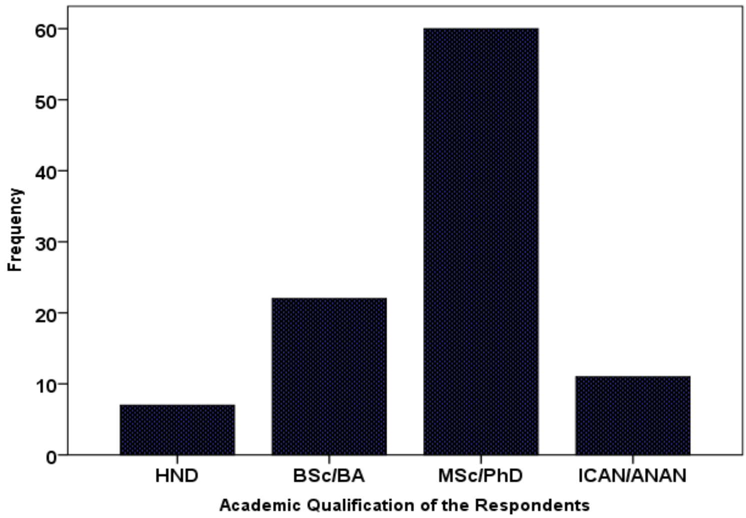
Issue 2/2021



Interpretation of Results

The test is aimed at determining whether the **signs** and **sizes** of the results are in line with the theoretical postulation of the study. Thus, theoretical postulation tells us that the coefficients are positively related to the dependent variable, if an increase in any of the explanatory variables leads to an increase in the dependent variable, vice visa.

Table 6. Ordinary Least Square (OLS) results

Variable	Coefficient	Standard Err	T-statistic	Probabilities
Intercept	3.898	0.350	11.131	0.000
AI	0.250	0.110	2.281	0.003
EP	0.239	0.082	2.923	0.038
R^2 = 0.647, R^2 bar = 0.623, F-stats(2, 97) = 6.047, D.W-stats., 1.737				

A-priori Expectation Criteria

The test is aimed at determining whether the signs and **sizes** of the results are in line with what theory postulates. Thus, theory tells us that the coefficients are positively related to the dependent variable, if an increase in any of the explanatory variables leads to an increase in the dependent variable. Therefore, the variable under consideration and their parameter exhibition of A-priori signs have been summarized in the table below. This table will be guarded by these criteria.

When **β**>0, Positive relationship.

When **β**<0, Negative relationship.

Table 7. A-priori Expectation Table

Variable(s)	Expected Sign	Estimate	Remarks
AI	**(+)**	**β_1>0**	**Conform**
EP	**(+)**	**B_2>0**	**Conform**

Source: Author's Computation

Tax-Rev = 3.898+ 0.250EB+ 0.239EP+ Ut
S.e (0.350) (0.110) (0.082)
T-Stat {11.131}{2.281} {2.923}

The intercept value shown was **3.898** which means, Tax Revenue **(Tax-Rev)** has **3.898** units when other variables are held constant. This means that generated revenue can be sourced outside the independent variables in this study and as a result of others factor in the economy.

Auditor Independence **(AI)** shows that **1 unit** increases in Auditor Independence brought **0.250 unit** increases in Tax Revenue **(Tax-Rev),** which was significant and substantial enough to justifies the impact of auditor independence in any organization both private and public sector in Nigeria and also to boost government generated revenue because **t-calculated** value is greater than **t-critical 2.281**>**1.662**, thus, it can be used for policy-making by way of improving government generated revenue through auditor independent.

Engagement Performance **(EGP)** shows that **1 unit** increases in Engagement Performance brought **0.239** units increase in Tax Revenue **(Tax-Rev)** with it is a statistically significant using rule of thumb and T-test statistic respectively, thus, Engagement Performance **(EGP)** improve way of workers dealing in Compliance with established standards and procedures for more revenue generation.

Statistical Criteria {first order test}

Coefficient of Multiple Determinants {R^2}

The $\mathbf{R^2}$ shows the **explanatory power** of the model which can be seen as **0.647** (**64.7%**), means, **64.7%** of changes in Tax Revenue **(Tax-Rev)** can be explained by all explanatory/exogenous variables or are due to exogenous variables changed, while the $\mathbf{R^2}$ adjusted is the **predictive power** to shows the predictive ability of the model and this can be seen as **0.623 (62.3%),** means, **62.3%** of change in Tax Revenue **(Tax-Rev)** can be predicted by explanatory variables in the model.

Lastly, the F-statistic shows the robustness of the model for goodness of fit by comparing **F-calculated** to **F-critical** in the table, in order to explain the impact of whole explanatory variables on dependent/explained variable, and this was shown by looking at it from the angle of **0.01** and **0.05** level of significance which are **4.79** and **3.07** and is less than **6.047**, **(4.79 and 3.07<6.047)** calculated respectively.

Hypotheses Testing

Hypothesis one: (H_{01}) null hypothesis

($\mathbf{H_{01}}$): Auditor independence does not have significant effect on tax revenue in Nigeria.

From the hypothesis result above, it is cleared that there was significant relationship between code of auditor independence and tax revenue of government in Nigeria with a positive relationship. Based on the analysis, auditors' independence will enhance and boost revenue tax generated by the government and also improve the status of auditor professional. The result of the analysis has shown that auditor independence contributes towards government tax revenue increment as impact on the reducing financial crime in Nigeria, we therefore reject null hypothesis **($\mathbf{H_{01}}$)** of auditor independence does not have significant effect on tax revenue in Nigeria. Hence, the objective of determining the effects of auditor independence on tax revenue in Nigeria as being achieved.

Hypothesis two: (H_{02}) null hypothesis

($\mathbf{H_{02}}$): Engagement performance has no relationship with the tax revenue in Nigeria.

From the hypothesis above, it is cleared that there is significant relationship between engagement performance of compliance with established standards and procedures in public sector in Nigeria for tax generation. Based on the result of

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analysis done above, compliance with established standards and procedures in both internal and external control system in FIRS in Nigeria will boost tax revenue generated by board in charge of it (i.e. FIRS) in Nigeria. Therefore, we reject the null hypothesis **(H_{02})** and accept alternative hypothesis that engagement performance has relationship with/on the tax revenue in Nigeria**.**

Unsuccessful tax administration by tax authorities in Nigeria is an essential factor accountable for the low level of government tax revenue. The result of the analysis has shown that Auditor Independence is a critical factor to be considered by government and others stockholders concerned in the financial firms, which has shown integral part through the analysis done above that Auditor Independence as impact on the tax revenue generated as much as expected base on the analysis done above and captured with Auditor Independence**(AI)** and with ability to reject null hypothesis **(H_{01})** of auditor independence does not have significant effect on tax revenue in Nigeria. Therefore, the objective of determining the effects of auditor independence on tax revenue in Nigeria as being achieved. Also, it is cleared that there relationship between engagement performance of compliance with established standards and procedures in public sector in both internal and external control system in public sector in Nigeria can bring more revenue to government's coffer. Based on the result of analysis done above, compliance with established standards and procedures in both internal and external control system in public sector in Nigeria will boost tax revenue generated by board in charge of it (i.e. FIRS) in Nigeria. Therefore, we reject the null hypothesis **(H_{02})** and accept alternative hypothesis that engagement performance has relationship with/on the tax revenue in Nigeria.

Discussion

It is clear indication that there was significant relationship between code of auditor independence and tax revenue of government in Nigeria with a positive relationship. Based on the analysis, independent auditors will enhance and boost revenue tax generated by the government and also improve the status of auditor professional and the result of the analysis has shown that auditor independence contributes towards government tax revenue increment as impact on the reducing financial crime in Nigeria. This conform to the *apriori* expectation and in tandem with the findings of Semiu,Okwu and Eyesan (2020).

Furthermore, there is significant relationship between engagement performance of compliance with established standards and procedures in public sector in Nigeria for tax generation. This conforms to the *apriori* expectation and in tandem with the findings of Adediran, Alade and Oshode (2013).

Based on the result of analysis done above, the result of the analysis has shown that Auditor Independence is a critical factor to be considered by government and others stockholders concerned in the financial firms, which has shown integral part through the analysis done above that Auditor Independence as impact on the tax revenue generated as much as expected base on Auditor Independence

Conclusion

The study empirically examined the relationship between audit quality and tax revenue in Nigeria. The research survey design was used for the study. Specifically, the study examines the effects of auditor independence and engagement performance as a fact of audit quality on tax revenue. The study adopted the ordinary least square (OLS) model that follows a coefficient of multiple determinants (R^2) as the data analysis method. The study findings revealed that auditor independence (A1) has a positive effect on tax revenue generation and is significant at 5%. Also, engagement performance (EGP) has a positive effect on tax revenue generation and is significant at 5%. This result implies that auditors' independence (A1) and engagement performance (EGP) would influence the tax revenue generation in Nigeria if properly enhanced.

Recommendations

Based on the findings of this study, which is in tandem with the objective as well, and the conclusion drawn thereof, the study recommends that:

i. In order to increase government tax revenue generation in Nigeria, auditors should embrace independence as a factor of audit quality (i.e. auditors independence should be seen in mind and in appearance and they should not allow anything to influence their decisions).

ii. Also, the auditors should strictly adhere to the established standards and procedures laid down by the government in respect of tax revenue generation.

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