Impact of Tax Audit on Tax Compliance in Nigeria

Kennedy Prince Modugu
Department of Accounting
Faculty of Management Sciences
University of Benin
Nigeria

John Obi Anyaduba PhD
Department of Accounting
Faculty of Management Sciences
University of Benin
Nigeria

Abstract
This paper examines the impact of tax audit and other qualitative attributes on the tax compliance level of companies in Nigeria. Questionnaires were administered to staff of sampled companies in selected states of the five 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. We therefore recommend that the relevant authorities should seek more pragmatic and effective means of enhancing the impact of tax audits on corporate tax compliance in Nigeria in order to consolidate on government’s revenue.

Keywords: Tax audit, tax compliance, self-assessment, government assessment

1. Introduction
All over the world, governments undertake huge public expenditure on behalf of their citizens for the provision of basic amenities and other social services. To meet up with these responsibilities, governments thus require substantial amount of funds. Among the various sources from which governments can generate income, taxes are the most important and most reliable; contributing much more than any other source. A tax therefore, is a compulsory levy imposed by the government on the income, profit or wealth of an individual, family, community, corporate or unincorporated bodies etc for purposes of financing public expenditures. Taxation is the inherent power of the state, exercised through the legislature, to impose financial burdens upon subjects within its jurisdiction for the purpose of raising revenues to carry out the legitimate duties of government.

One major problem inhibiting effective tax administration in emerging economies is tax evasion, i.e., deliberate refusal to pay tax. To combat this ugly phenomenon, various countries of the world have introduced tax audit into their tax system.

According to OECD (2006), a tax audit is an examination of whether a taxpayer has correctly assessed and reported their tax liability and fulfilled other obligations.

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.
This may give rise to incorrect filing of their tax returns and a loss of revenue to the government. The objective of this study is to examine the impact of tax audit and other qualitative attributes on the tax compliance level of companies in Nigeria. It is against this backdrop that we define tax audit as a process in which the tax authority examines certain issues related to the profits of a company and its other related returns, as it may deem necessary and expedient in accordance with the relevant provisions of the Act. It is usually a routine exercise, although its outcome could lead to a re-assessment or referral for special investigation, especially if tax evasion is suspected. Thus, the primary purpose of tax audit is to ascertain the extent to which tax payers 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. However, how well this introduction of tax audit has helped enforce tax compliance among companies has attracted commentaries and debates in developed economies (e.g. Jackson and Jaouen, 1989; Shanmugam, 2003; Dubin, 2004; etc). 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. This study therefore seeks to examine the impact tax audit has on tax compliance behavior of companies in Nigeria.

2. Conceptual Framework and Review of Relevant Literature

2.1 Tax audit and Tax Compliance.

Tax audits have been variously discussed in relation to tax compliance. According to Palil and Mustapha (2011), some studies claimed that audits have a positive impact on tax evasion (See Jackson and Jaouen, 1989; Shanmugam, 2003; Dubin, 2004). These findings suggest that in self assessment systems, tax audits can play an important role and their central role is to increase voluntary compliance. Palil and Mustapha (2011) argued audits rates and the thoroughness of the audits could encourage taxpayers to be more prudent in completing their tax returns, report all income and claim the correct deductions to ascertain their tax liability. In contrast, taxpayers who have never been audited might be tempted to under report their actual income and claim false deductions. Butler (1993) cited in Palil and Mustapha (2011), also found that tax audits can change compliance behaviour from negative to positive. These findings complement the Witte and Woodbury (1985) and the Beron, Tauchen and Witte (1988) studies. Witte and Woodbury in their study of small proprietors found that tax audits have a significant role in tax compliance. They did not empirically test individual taxpayers, thus left open room to conduct research in this area. While Butler (1993) and Witte and Woodbury (1985) found significant results, Beron et al. (1988) found a contradictory result. They reported that audits did not significantly correlate with evasion for all groups they studied. Audits were found to be more effective in inducing taxpayers to over claim deductions rather than encouraging them to correctly report actual income (Beron et al. 1988).

From another point of view, Evans, Carlon and Massey (2005) studied the tax compliance of small and medium size enterprises (SME) in Australia. Their objective was to examine the relationship between record keeping practices of SMEs and the potential exposure to tax compliance problems. The study hypothesised that low tax compliance among SMEs might better encourage the tax authority to increase audits and investigations. This study involved 129 small business owners, 130 tax practitioners and Australian Tax Office (ATO) auditors. Using mail surveys, this study found that audit history, including frequency, audit outcome and the type of audit of small business owners has a significant indirect impact on tax compliance (in terms of record keeping). The result also evidenced that the primary objective of the small business owners doing their record keeping is tax compliance related rather than part of their management of their business. Thus, as the audits investigations increase, many SMEs will make more of an effort at proper record keeping.

From the foregoing, it is observed that previous studies have evidenced that tax audits play an important role in increasing voluntary compliance. Audits rates and the thoroughness of the audits could potentially encourage taxpayers to be more prudent in completing their tax returns. The next subsection describes the impact of perceptions of government spending on compliance.

2.2 Perceptions of Government Spending and Tax Compliance

Palil and Mustapha (2011) observe that studies on the relationship between the specifics of actual government spending and tax compliance, particularly on tax evasion, are very limited. They acknowledge that taxpayers, and especially those who pay high amounts of tax, will be sensitive to what the government spends their money on.
Although there is limited empirical evidence, it is reasonable to assume that taxpayers will tend to evade tax if they perceive that the government spends tax money unwisely.

Lewis (1982) cited in Halil and Mustapha (2011) suggests that attitudes should be examined for the degree to which they are a product of myth and misperception. He argued that when myths and misperceptions are replaced by knowledge, a change in attitudes towards taxation will occur even if the taxpayers’ basic ideology and values remain unchanged and the tax law is unchanged. He also claimed that misperception probably plays a major role shaping fairness evaluations. Corroborating the view of Lewis (1982), Roberts, Hite and Bradley (1994) also suggest that attitude to one's own tax evasion (tax ethics), and attitude to other people's tax evasion are important. If the government is wisely spending the national revenue, for example for basic facilities like education, health and safety and public transportation, it is likely that voluntary compliance will increase. In contrast, if taxpayers perceive that the government is spending too much on something considered unnecessary or unbenevolent to them then taxpayers will feel betrayed and attempt to evade. The government at all levels therefore should prudently spend taxpayers’ money to give them (taxpayers) maximum benefits for their contributions to the public treasury.

### 2.3 Probability of Detection and Tax Compliance

Allingham and Sandmo (1972) argue that taxpayers will always declare their income correctly if the probability of detection is high. Probability of detection plays a significant role in reporting behavior as taxpayers will declare everything if they perceive that they will be one of the auditees in that particular year (Riahi-Belkaoui, 2004; Richardson, 2008). Slemrod, Blumenthal and Christian (1998) investigated the relationship between the probability of being audited and the taxpayers’ responses. The experiment indicated that taxpayers’ behaviour varied with respect to level of income and the probability of being audited played a significant role in determining taxpayers’ evasion behaviour. However, the direction of the relationship was not clearly stated by Slemrod et al. (1988). Their result was also supported by Andreoni et al. (1998) who found that prior audit experience and continuous contact (relation) with the tax authority influenced and increase compliance among taxpayers. Conversely, Young (1994) and Slemrod et al (2001) found that probability of being audited again was negatively correlated with compliance behavior (Palil and Mustapha, 2011)

Allingham and Sandmo (1972) claim that taxpayers will always declare their income correctly if the probability of detection is high. Probability of detection plays a significant role in reporting behavior as taxpayers will declare everything if they perceive that they will be one of the auditees in that particular year (Riahi-Belkaoui, 2004; Richardson, 2008). Slemrod, Blumenthal and Christian (1998) investigate the relationship between the probability of being audited and the taxpayers’ responses. The experiment indicated that taxpayers’ behaviour varied with respect to level of income and the probability of being audited played a significant role in determining taxpayers’ evasion behaviour. However, the direction of the relationship (positive or negative) was not clearly stated by Slemrod et al. (1988). The Slemrod et al. result was also supported by Andreoni et al. (1998) who found that prior audit experience and continuous contact (relation) with the tax authority influenced and increase compliance among taxpayers. Conversely, Young (1994) and Slemrod et al (2001) observe that probability of being audited again was negatively correlated with compliance behaviour.

Bergman (1998) cited in Palil and Mustapha (2011) investigates tax compliance behaviour in Argentina using two approaches; 1) the measures to enhance commercial taxpayers and 2) extensive campaigns and audits which will increase the probability of detection among individual taxpayers. The results suggested that as the number of audits and the probability of detection increased, taxpayers are encouraged to comply with tax laws and accurately report their income. This suggests that unintentional evasion may occur rather than intentional evasion (p. 63). He also claimed that the lack of audits and investigations implemented by tax authorities in the 1980s in Argentina had driven taxpayers to behave ‘recklessly’. Moreover, as taxpayers were aware that they would not be detected due to lack of investigations, they incorporated more complex tax evasion strategies and less traceable documentations so that they could pay less tax. Findings by Bergman are consistent with the theoretical proposition that the fear of detection influences the level of compliance behaviour, suggesting that the evaders take precautionary measures when the perceived risk of detection is high.

### 2.4 Changes to Current Government Policies and Tax Compliance

Political stability and the ruling government party in a country might play a significant role in determining tax evasion behaviour. For instance, if an individual favours the current ruling government party, he might choose to be compliant because he believes that the government is trusted, efficient and equitable.
Conversely, a taxpayer from the opposition party might be more noncompliant because he perceives that the government is not on his side. In addition to the political affiliation, changes of current government policies might also impact tax compliance behaviour. For example, unlike in the UK, in Malaysia, petrol prices and some basic needs like sugar, wheat flour, rice and cooking oils are controlled by the government and the prices regularly increase according to global economic and government financial situations. Thus, increasing these resources has a negative impact on taxpayers’ purchasing power and finally may encourage taxpayers to evade tax. Kim (2008) in his study on tax evasion in 50 countries each year illustrated these points and concluded that tax evasion is influenced by price control (positive direction), public service (positive), collected corporate tax (positive), GDP per capita (positive), tax system (positive) and the composition of government spending (positive).

Hasseldine and Hite (2003) examine whether attitudes toward the federal income tax system and the tax rebate vary by political party affiliation in the United States. Using data from a randomized telephone survey they found that political party affiliation impacted upon taxpayers’ behaviour.

Consequently, any study of taxpayer attitudes would benefit from examining whether the attitudes are dependent on underlying political affiliations. Hasseldine and Hite’s study examined two potential influences on taxpayer attitudes, namely political party affiliation and attribute framing. Since tax attitudes may be influenced by one’s political preferences, taxpayer attitudes towards the current system are tested for differences by political affiliation (Palil and Mustapha, 2011).

2.5 Awareness of Offences and Penalties and Tax Compliance

According to Palil and Mustapha (2011), a theoretical economic model introduced by Allingham and Sandmo (1972) has clearly indicated that penalties as well as audit probability have an impact on tax compliance. The higher the penalty and the potential audit probability the greater the discouragement for potential tax evasion. However, the more complex models like principal agent theory and game theory suggest that penalties and audit probability are difficult to portray in compliance models as the results are determined endogenously with tax cheating (Andreoni et al., 1998). Andreoni et al. suggested that to overcome the endogeneity it is necessary to control the enforcement environment artificially by using laboratory experiment methods. This has been evidenced by Beck, Davis and Jung (1991) and Becker, Buchner and Sleeking (1987) through their experiments in which they found that penalty rates affect tax compliance in accordance with the theory. However, an experimental approach does limit the environment to a narrow perspective compared to the real world. Bryman and Bell (2003) suggested that an experimental approach is only suitable for a study that can be addressed with a high degree of experimental arrangement and control. Nevertheless, an experimental approach for a tax compliance study might show a smaller effect or influence than for direct observation (Alm, Jackson and McKee, 1992). In addition, Marrelli (1984), Wang and Conant (1988), Gordon (1990), Marrelli and Martina (1988) found that penalty rates have a negative association with evasion. In contrast however, Virmani (1989) indicated results the other way around, in which penalty rates had a positive association with evasion, meaning that higher rates did indeed encourage people to cheat.

Since previous studies indicate that penalty rates impact upon tax compliance behaviour, the awareness of offences was presumed to have a significant influence as well. If the taxpayers are aware of the offences they are committing when evading tax and the consequences of being non compliant taxpayers, they might reduce their tendency to evade tax. On the other hand, if they are not aware of the implications of being dishonest in terms of the offence they are likely to be charged with if caught, they might be more inclined to cheat because they presume that they will not be detected and could save money. Thus, educating taxpayers and keeping them well informed with the sentences of being an evader may be important, as a prevention measure is better than cure (imposition of a penalty).

To achieve the objective of this paper, the following hypotheses were tested.

**H**<sub>1</sub> - There is no significant relationship between probability of being audited and tax compliance.

**H**<sub>2</sub> - There is no significant relationship between government spending and tax compliance.

**H**<sub>3</sub> - There is no significant relationship between weak and arbitrary penalties and tax compliance

**H**<sub>4</sub> - There is no significant relationship between changes in government policies and tax compliance.

210
Methodology
In this study, we employed primary data through the use of questionnaire to elicit responses regarding the perception of personnel saddled with the collection and remission of tax revenue to the government. The justification for the choice of these employees stemmed from the fact that while cases of tax evasion are rife in Nigeria following the introduction of the self-assessment scheme, tax audit which is supposed to mitigate such widespread tax evasion command insignificant attention from revenue authorities. This consequently accounts for the low compliance level of tax payers in the country. The research instrument is administered on the staff of the State Board of Internal Revenue of the selected states (Lagos-Southwest, Edo-South South, Jos-North Central, Kano-North West and Adamawa-North east) in five geo-political zones and their corresponding Federal Inland Revenue Services. A total of 500 questionnaires were administered with 100 for each of the geo-political zones.

The data generated was analysed using the Ordered Logistic Regression technique to determine the significance of the independent variables has on tax compliance. The model for this study is specified thus:

$$TAXCOMP = \beta_1 TAXAUDIT + \beta_2 GOVSPEND + \beta_3 PENALTY + \beta_4 GOVPOL + \beta_5 DETECTN + \epsilon$$

Where;

- **TAXCOMP**: Tax compliance
- **TAXAUDIT**: Probability of being audited
- **GOVSPEND**: Perception on government spending
- **PENALTY**: Penalties and enforcement
- **GOVPOL**: Changes in government policy

Data Analyses
The result from the empirical analysis is discussed below:

Correlation Analysis
The study used the spearman rank correlation due to the qualitative nature of the data used. The result from the spearman rank correlation is presented below:

<table>
<thead>
<tr>
<th></th>
<th>TAXCOM</th>
<th>TAXAUDIT</th>
<th>GOVSPEND</th>
<th>PENALTY</th>
<th>GOVPOL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Spearman's rho</strong></td>
<td><strong>Correlation Coefficient</strong></td>
<td>.241(**)</td>
<td>.697(**)</td>
<td>.063</td>
<td>.126(*)</td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.000</td>
<td>.000</td>
<td>.199</td>
<td>.010</td>
<td></td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>413</td>
<td>413</td>
<td>413</td>
<td>413</td>
<td></td>
</tr>
</tbody>
</table>

| **TAXAUDIT** | **Correlation Coefficient** | .241(**) | 1.000 | .116(*) | .078 | -.194(**) |
| **Sig. (2-tailed)** | .000 | .018 | .114 | .000 |
| **N** | 413 | 413 | 413 | 413 |

| **GOVSPEND** | **Correlation Coefficient** | .697(**) | .116(*) | 1.000 | .001 | .207(**) |
| **Sig. (2-tailed)** | .000 | .018 | .981 | .000 |
| **N** | 413 | 413 | 413 | 413 |

| **PENALTY** | **Correlation Coefficient** | -.063 | .078 | .001 | 1.000 | -.117(*) |
| **Sig. (2-tailed)** | .199 | .114 | .981 | .018 |
| **N** | 413 | 413 | 413 | 413 |

| **GOVPOL** | **Correlation Coefficient** | .126(*) | -.194(**) | .207(**) | -.117(*) | 1.000 |
| **Sig. (2-tailed)** | .010 | .000 | .018 | .000 |
| **N** | 413 | 413 | 413 | 413 |

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

The result shows that there exists a positive correlation between the tax compliance and tax audit, with a correlation coefficient of 0.241. This means the strength of relationship between them is about 24.4% which shows a weak relationship between tax compliance and tax audit.
Govspend with a correlation coefficient of 0.697 indicates that there exists a significant positive relationship between government spending and tax compliance. GOVPOL with a correlation coefficient of 0.126 indicates that there also exists a positive relationship between changes in government policy and tax compliance. The result revealed an inverse relationship between penalty and tax compliance with a co-efficient of -0.063.

Table 2: Ordered Logistic Regression Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>z-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAXAUDIT</td>
<td>1.565034</td>
<td>0.644881</td>
<td>2.426855</td>
<td>0.0152**</td>
</tr>
<tr>
<td>PENALTY</td>
<td>-3.320657</td>
<td>0.869508</td>
<td>-3.819008</td>
<td>0.0001***</td>
</tr>
<tr>
<td>GOVSPEND</td>
<td>2.569197</td>
<td>0.227221</td>
<td>11.30705</td>
<td>0.0000***</td>
</tr>
<tr>
<td>GOVPOL</td>
<td>0.161929</td>
<td>0.161881</td>
<td>1.000299</td>
<td>0.3172</td>
</tr>
<tr>
<td>TAXAUDIT*PENALTY</td>
<td>0.665780</td>
<td>0.209759</td>
<td>3.174017</td>
<td>0.0015***</td>
</tr>
</tbody>
</table>

Pseudo R-squared: 0.354552
Akaike info criterion: 1.240611
Schwarz criterion: 1.318547
Hannan-Quinn criter.: 1.271435
LR statistic: 272.6635
Avg. log likelihood: 0.600935

** Source: Research computations (2013)**

** Significant at 5% level *** significant at 1% level

The result shows that the Pseudo R-square with a value of 0.35 implies that about 35% of the changes in tax compliance could only be explained by regressors namely; probability of being tax audited (TAXAUDIT), perception on government spending (GOVSPEND), penalties and enforcement (PENALTY) and changes in government policies (GOVPOL) while about 65% of the changes in tax compliance (TAXCOMP) could be explained by other exogenous factors. The LR stat. shows that the overall model is significant at 5% level. The result 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, since their calculated z-values of 2.42, -3.81, 11.3 and 3.17 respectively were greater than the critical z-value of 1.96 at 5% level of significance.

The result showed that there exist a positive relationship between tax audit and tax compliance which in tandem with the findings of Blumenthal, and Christian (2001), Alm and McKee (2006); Slemrod.; Mittone (2006); Ebimobowei & Eze (2013). They found that there is a positive relationship between tax audit and tax compliance. This means that the compliance rate rises if the tendency of being tax-audited is high. If the tax payers are informed that their fillings will be closely examined, there is a tendency for the tax payers behaviour to change in response to an increased probability of been tax audited. We therefore reject the hypothesis that there is no significant relationship between probability of being audited and tax compliance.

Penalty and enforcement had a significant inverse relationship with tax compliance which implies that an increase in penalty will have a tendency to decrease tax compliance which does not agree with apriori expection. This agrees with the findings of Marrelli (1984), Wang and Conant (1988); Marrelli and Martina (1988); Alm, Jackson and Gordon (1990); McKee, (1992) which found that penalty rates have a negative association with tax compliance. In Nigeria, despite the penalties put in place to ensure tax compliance, that taxpayers still may not fully comply since the penalties are either weak or poorly enforced. This means that penalties do not deter tax evasion. The relationship between penalties and tax compliance is significant but inverse. We therefore reject the hypothesis that there is no significant relationship between penalty and enforcement and tax compliance.

The result further revealed that there exists a significant positive relationship between government spending and tax compliance. This connotes that an increase in government spending on the social and welfare needs of its citizens has a tendency to positively influence tax compliance.
The taxpayers, especially those in high tax brackets are sensitive to governments’ expenditure of tax revenue. If they perceive that the government spends tax money wisely in development of the State, they would be willingly comply with tax payment. This agrees with the findings of Halil and Mustapha (2011).

They found a direct relationship between government spending and tax compliance. Therefore, we reject the hypothesis that there is no relationship between government spending and tax compliance.

Finally the result also disclosed that an insignificant positive relationship between government policies and tax compliance. This is a clear indication the current policies of government on tax administration appear adequate.

On this note, we fail to reject the hypothesis that there is no significant relationship between changes in government policies and tax compliance.

**Diagnostics Tests**

To ensure reliability and validity of the empirical result, some diagnostic tests were conducted. In order to test for the presence of multicollinearity in the model, the variance inflation factor (VIF) was carried out, the Heteroskedasticity test was conducted using White Heteroskedasticity test while the Breush-Godfrey LM test was conducted to test the presence of autocorrelation in the model. The results are shown below:

**Variance Inflation Factor**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Uncentered Variance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAXAUDIT</td>
<td>0.002995</td>
<td>4.11312</td>
<td></td>
</tr>
<tr>
<td>GOVSPEND</td>
<td>0.001412</td>
<td>2.77584</td>
<td></td>
</tr>
<tr>
<td>PENALTY</td>
<td>0.008731</td>
<td>7.76293</td>
<td></td>
</tr>
<tr>
<td>GOVPOL</td>
<td>0.001480</td>
<td>2.84987</td>
<td></td>
</tr>
<tr>
<td>PENALTY*TAXAUDIT</td>
<td>0.000573</td>
<td>9.61121</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Researcher’s computations (2013)

The table above shows that all the variables in the regression model are relevant to the study since the VIF factors is all below the benchmark of 10. This indicates the absence of multicollinearity in models.

**Serial Correlation Test**

| Breusch-Godfrey Serial Correlation LM Test: | |
|-------------------------------------------|-------------------------|------------------|
| F-statistic                               | 0.313288                | Prob. F(2,406)   | 0.7312 |
| Obs*R-squared                             | 0.592910                | Prob. Chi-Square(2) | 0.7434 |

**Source:** Researcher’s computations (2013)

The table above shows that the F-statistic and Obs*R-square values of 0.31 and 0.59 with p-values of 0.73 and 0.74 respectively indicates the absence of autocorrelation in model since the F-statistic and Obs*R-square with p-values of 0.73 and 0.74 are greater than the critical values at 5% level of significance. Thus, we can conclude that there is no presence of autocorrelation in the model.

**Heteroskedasticity Test**

| Heteroskedasticity Test: White | |
|-------------------------------|-------------------|------------------|
| F-statistic                   | 0.4758             | Prob. F(10,402)  | 0.5873 |
| Obs*R-squared                 | 4.9797             | Prob. Chi-Square(10) | 0.6064 |

**Source:** Researcher’s computations (2013)
The table above shows that the F-statistic and Obs*R-square values of 0.47 and 4.9 with p-values of 0.58 and 0.60 respectively indicates the absence of heteroskedasticity in model1 since the F-statistic and Obs*R-square with p-values of 0.58 and 0.60 are greater than the critical values at 5% level of significance. Thus, we can conclude that there is no presence of heteroskedasticity in the model.

**Conclusion and Recommendation**

An attempt has been made in this paper to present a comprehensive analysis of the level of response of Nigerian companies to tax audits, particularly with respect to tax compliance. Following an extensive review of relevant literature relating to tax audits and corporate tax compliance in other climes, and also on the basis of the results derived from the study, the paper concludes that tax audits are yet to make any substantial impact on the low corporate tax compliance culture in Nigeria. It therefore behoves on the relevant authorities to seek more pragmatic and effective means of enhancing the impact of tax audits on corporate tax compliance in Nigeria in order to consolidate on government’s revenue.
References


